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1973 HOUSING AND URBAN DEVELOPMENT LEGISLATION

HEARINGS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

ON

PROPOSED HOUSING AND COMMUNITY DEVELOPMENT LEGISLATION FOR 1973

PART 1

JULY 16, 17, 18, 19, 20, 23, 24, AND 27, 1973

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1973 HOUSING AND URBAN DEVELOPMENT LEGISLATION

MONDAY, JULY 16, 1973

U.S. SENATE,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:13 a.m., pursuant to call, in room 5302, Dirksen Senate Office Building, Senator William Proxmire presiding.

Present: Senators Proxmire, Cranston, Stevenson, Biden, Brooke, and Taft.

Senator PROXMIRE. The committee will come to order.

I apologize, Mr. Secretary, that I am late. I had work on the floor that I had to do this morning and was not able to get free.

I am acting on behalf of the chairman of the committee this morning, Chairman Sparkman, who has, as you know, been in China and is returning this evening.

We are starting hearings today on proposed housing and urban development legislation. The hearings will run for 2 weeks and will cover all bills pending before the subcommittee, including both housing and urban development matters.

The legislation pending before us covers a whole range of subjects, and it is hoped the testimony will be submitted from a cross section of Government and public interest groups to give the committee adequate assistance in considering these various bills.

Because of the actions taken by the administration earlier this year in freezing funds for all HUD-assisted housing and urban development programs, this hearing takes on additional significance.

The committee has a heavy responsibility placed upon it to come up with new legislative proposals covering both the housing and urban development fields.

Early in April the committee held oversight hearings to review the existing programs. Following that, the committee invited further reports from the public to help it prepare for these legislative hearings.

When the President froze housing funds earlier this year, he promised to report to the Congress his recommendations for new legislation by September 7. We are proceeding with hearings ahead of that date because the importance of developing a legislative package which can pass the Congress this calendar year.

And I stress "pass the Congress." If we can do so, I will be surprised but delighted, and I am sure, Mr. Secretary, that you will be very happy, too, if we can accomplish that.

We are proceeding with hearings ahead of that date because of the importance of developing a legislative package, as I say, which can pass the Congress this year.

The hiatus in housing programs has been a serious blow to our efforts to reach our national goals. We cannot afford to delay any further in getting these programs restored.

Unless housing-authorizing legislation is passed this year, it will be extremely difficult to obtain an adequate level of funding in fiscal year 1975.

It is the chairman's plan, therefore, to press hard and move as rapidly as possible in conducting hearings and marking up a bill for Senate consideration hopefully by the end of September.

If the President's September 7 package contains radical changes from previous legislation, we can conduct short hearings just for that purpose.

We should be prepared, therefore, to start committee markup by the middle of September.

For the purpose of the record I would like to add at this point a statement that Chairman Sparkman made in the Senate on May 8, 1973, relative to the committee's plan for developing new housing legislation for this year. I will also place in the record a list of bills on Housing and Urban Development pending before the subcommittee.

[The statement by Senator Sparkman referred to above, followed by a list of the bills being considered at these hearings is reported as follows. Complete text of the bills is printed in the appendix, part 2 of this publication at page 2329.]

[From the Congressional Record, May 8, 1973]

Mr. SPARKMAN. Mr. President, I am introducing two alternative bills to establish a new program of Federal assistance to the Nation's communities for urban development.

The one bill entitled "The Better Communities Act" I am introducing by request for myself and the distinguished senior Senator from Texas (Mr. TOWER). This bill, which was sent to the Congress by Hon. James T. Lynn, Secretary of Housing and Urban Development, on April 20, would carry out the President's recommendations in his message to the Congress of March 8, 1973, on community development. It is one of several special revenue sharing proposals that the President is submitting to the Congress as part of his legislative program for 1973. According to the President's message, the bill would provide $2.3 billion a year, beginning July 1, 1974, to communities to be spent as they desire to meet their community development needs. It would replace seven existing categorical grant and loan programs, retain existing levels of Federal funds to communities by a hold-harmless provision, upgrade the role of State governments by delegating to them the authority of distributing part of the funds, assure a specific level of funding by formula for metropolitan cities and urban counties, and reduce Federal redtape by distributing the funds automatically to units of local government without the requirement of all application.

The other bill I am introducing is identical with the provisions of chapter III of S. 3248, which the Senate passed early last year by a vote of 80 to 1. The only change is the dates of reference in view of an anticipated passage in 1973 rather than 1972.

Last year's provisions grew out of a bill, S. 2333, which I introduced in 1971 to bring about a consolidation of existing community development programs into a single block-grant program. Our committee had before it both S. 2333 and S. 1618, the administration's special revenue sharing community development bill sent to the Congress in 1971. The resulting product, developed by the committee after extensive hearings and many hours of committee meetings in

executive sessions, has provisions from both bills, but basically contains the block grant principles of S. 2333.

Some of the same issues considered by the committee in connection with last year's bill will be before us again this year. However, much has happened in the last year; and I know that the committee will want to take a new look at each of the issues and make independent judgments to develop legislation for recommendation to the Senate this year. The important differences between the two bills follow:

1. REVENUE SHARING

The principle of special revenue sharing has not yet been accepted by the Congress. It carries with it a transfer of responsibility for meeting national objectives from the Federal Government to local governments with no built-in means for directing or evaluating how the Federal funds are spent, other than a postaudit for accounting and auditing purposes. Under the administration bill, communities would be automatically eligible regardless of plans or national goals, the only requirement being a 60-day time period for local comment and a requirement to meet Federal civil rights and other laws.

The Senate-passed bill of last year had a number of built-in requirements to insure that eligibility would be limited to those communities preparing and implementing plans to meet the national objectives spelled out in the law. This obviously would require HUD review and some delays. The committee would probably want to reexamine its decision of last year which required an application and a year-end review to seek a procedure which minimizes the inevitable bureaucratic application approvals, while at the same time insuring that the program is being administered to meet community development national objectives and not just to reduce local taxes or other purely parochial, partisan or narrow local objectives not considered in the public interest.

2. HUD PROGRAMS REPLACED

The major program difference between the two bills is that the administration bill proposes to terminate the model cities and the rehabilitation loan programs, while last year's bill does not. Last year's Senate bill contemplated the eventual inclusion of the model cities program into the new program, so I see no problem over model cities. However, the termination of the rehabilitation loan program proposed by the administration this year appears to leave a serious gap in the tools for an effective rehabilitation program.

3. FUNDING LEVELS

Last year's Senate bill authorized $5.9 billion in contract authority over a 2-year period of time, fiscal years 1974 and 1975. Such contracts could be liquidated subject to an appropriation act by a maximum of $2.7 billion in fiscal year 1974 and $3.2 billion in fiscal year 1975.

The administration's bill would authorize an appropriation of $2.3 billion for fiscal year 1975 with an equal amount contemplated for each of the 4 years thereafter. Considering the inclusion of the model cities program in the administration bill, which last year was at a program level of $600 million, the sharp reduction in the proposed funding becomes quite apparent.

4. ADVANCE FUNDING

Last year's bill contemplated a 2-year advance funding program to insure continuity from year to year. Two-year contracts would be made by the Secretary which would be renewed each year in order to provide for continuing support on a 2-year cycle subject to adequate contract performance.

5. BASIC ENTITLEMENT FOR METROPOLITAN CITIES AND URBAN COUNTIES

The administration's bill would establish a different allocation procedure than the one approved in last year's Senate bill; however, the basic provisions for hold-harmless and the primary distribution of program funds to metropolitan cities in accordance with population size and need would be retained. Entitlement for large metropolitan counties was not covered in last year's bill, but I see no problem in having such counties included.

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The distribution of funds through the States rather than by HUD for small communities proposed by the administration is a new proposal that needs to be considered by the committee. Last year's bill made States eligible for funds to carry out community development funds, whereas the administration's bill would contemplate them only as passive distributors of funds. Considerable work needs to be done on the computers to insure that the formula for basic entitlement of funds and hold-harmless provisions are equitable and fair.

6. HOUSING

The administration's bill makes no provision to insure that a recipient community would undertake a program to meet its housing needs as part of its community development efforts. Also, no provision is made in the administration bill to meet the statutory requirement for relocation housing for families displaced by this program or, in fact, by any other current Government program.

Last year's Senate bill not only contemplated a prerequisite plan to meet housing needs, but also a plan to carry out programs to eliminate slums and blight and to improve and upgrade community services and facilities in areas affected by community development programs.

7. LOANS

No provision is made in the administration bill for Federal support to enable a community to borrow funds at reasonable rates to carry out costly development programs like urban renewal. The bill merely recognizes the right of the community to use whatever financial mechanisms that are available.

Last year's bill made provision for Federal loans to States and communities for planning and operating activities. Our committee has been told that without federally supported loan funds, any substantial development or redevelopment program would not be feasible for most U.S. communities. Land acquisitions, for example, under urban renewal have been largely financed with temporary loans locally issued, but backed by a Federal loan commitment.

Mr. President, you can see that there are many fundamental issues that need to be ironed out. Most of the issues were considered last year, so they are not new to the committee. I have introduced both bills to lay before the committee and the Senate the choices before us and to solicit comments from the public and users of the programs well in advance of hearings. To speedup consideration of a community development bill that will be acceptable to the committee and the Congress and, I hope, to the administration, I am having extensive work done to update the provisions of chapter III of last year's bill. I want an updated bill which will reflect the testimony submitted to the Housing Subcommittee in the recent oversight hearings; also, the current thinking of the administration as indicated in supporting material of its Better Communities Act, which I am also introducing today by request. An example of provisions to be added are those proposed by the administration, which I am sure the committee will support, to add model cities to the list of categorical programs replaced and the addition of a special allocation for urban counties.

Another reason for introducing last year's community development provisions as a separate bill at this time is the concern I have that mayors and other community leaders are being confused by the current distribution of proposed revenue-sharing funds coming out of the administration's nationwide drive to inform the public on the terms of its revenue-sharing better communities bill. Many Members of Congress are receiving calls complaining about the figures on the assumption that they are final, are, in fact, approved by the Congress. By having my bill

introduced as an alternative I hope to eliminate this speculation, making it clear that there is an alternative and that Congress has not yet acted on the matter.

Mr. President, the Congress is facing a very important policy issue at this time involving the reestablishment of Federal programs for housing low- and moderate-income families which were cut off by the President in early January of this year. Over 4 months have gone by and no acceptable plan has been advanced for reinstating these programs or developing new ones. I am fearful that, at the rate we are going, the President's original 18-month moratorium may end up as a 24-month moratorium or longer. The President sent a message to the Congress on March 8 in which he promised to send a report to the Congress in 6 months—that is, by September 8—on his policy recommendations based upon the results of a major study he is making of the housing subsidy programs. Presumably based on these recommendations, some legislative action could be taken at some later date to reinstate Federal subsidy programs, or it is possible that the recommendations would not favor any such program at this time. This latter possibility is credible in view of the lack of housing subsidies for new programs in either the fiscal year 1974 budget or projected fiscal year 1975 budget estimates.

Mr. President, I do not believe that Congress should hold up our normal procedure and wait for this indefinite product. We must remember the long leadtime required to initiate programs. Cutting off programs is so simple compared with reinstating or initiating new ones. Once the authorizing legislation is passed, appropriations must be made, regulations must be written and communities and sponsors need time to prepare for program funds, apply for assistance and finally initiate action at the local level.

I believe that Congress has the responsibility for enacting legislation this year to have the authorization ready for the President's fiscal year 1975 budget message and, even more important, to insure its consideration by the Congress under the new budget procedures recently recommended by the Joint Study Committee on the Budget which would require authorizations 1 year in advance. Any authorization approved by Congress during early calendar year 1974 would have little chance of being included in an appropriations act for fiscal year 1975.

Mr. President, I have another strong feeling about our pending legislation, which I believe would be strongly supported by Members of the Congress; that is, that a community development bill without provision for housing subsidies would be a disservice to our communities and to our needy and ill-housed families. These programs should go together and I propose to move ahead with the preparation of housing legislation to accompany the community development bill. I have already taken steps to draft such a bill consistent with the testimony received in our recent oversight hearings. I hope that our work in drafting a new housing bill can be completed and hearings held on both the housing legislation and the community development legislation this summer. This would give adequate time for passage of legislation in both the Senate and the House this fall.

This is my plan. I have every reason to believe we can meet the schedule I have outlined. I believe that Congress owes this to the Nation and must proceed as rapidly as possible hopefully bringing the administration along, but proceeding in any event to meet our congressional responsibility.

Mr. President, there is one more matter which I should add here, that is, that we expect to concur with the House in passage of a simple extension bill before the June 30, 1973, deadline for FHA and many of our programs. It has been proposed that such an extension bill extend both dates and funding authority, leaving an option to the Appropriations Committees to appropriate funds for fiscal year 1974 to carry out certain programs through until the new programs can be implemented on July 1, 1974. I support that plan.

HOUSING AND URBAN DEVELOPMENT BILLS PENDING BEFORE THE SUBCOMMITTEE*

Bill	Senator	Subject
S. 12	Williams	To amend title VII of 1961 Housing Act to establish an Urban Parkland Heritage Corp. to provide funds for the acquisition and operation of open-space land.
S. 149	Inouye	To amend sec. 5(c) of Home Owners Act of 1933 to authorize an increase in principal amount of mortgages on properties in Alaska, Guam, and Hawaii to compensate for higher prevailing costs.
S. 361	McGovern et al	To provide housing and community development for persons in rural areas of the United States on an emergency basis.
S. 513	Moss	To amend sec. 232 of the National Housing Act.
S. 779	Sparkman	To provide that certain expense incurred in the construction of a municipal building in Taledega, Ala., shall be eligible as local grants-in-aid for purposes of title I of the Housing Act of 1949.
S. 833	Tower and Fannin	To repeal certain provisions of law applicable to federally assisted housing.
S. 854	Stevenson	A bill to improve planning and management processes in States, regions, and localities.
S. 892	Sparkman and Tower	To amend sec. 404 of the National Housing Act.
S. 898	Hollings and Cranston	To authorize insurance in connection with loans to finance purchase of lots for mobile homes.
S. 899	Hollings and Cranston	To amend title V of the HUDA of 1949.
S. 910	Hollings	To amend title V of the HUDA to assure borrowers of the right to employ qualified attorneys in performing necessary legal services in connection with loans under that title.
S. 971	Taft and Cranston	Home Preservation Act of 1973.
S. 1188	Brock	To promote the utilization of improved technology in federally assisted housing projects and to increase productivity in order to meet our national housing goals.
S. 1299	Symington	To amend title I HUDA 1949 to permit a city whose population is below 50,000 to convert any outstanding urban renewal projects from a two-thirds to a three-fourths capital grant formula.
S. 1322	Williams	To require HUD secretary to disregard the increase in benefits under title II of the Social Security Act pursuant to Public Law 92-336 in determining eligibility or the amount of assistance under certain laws relating to low-income housing.
S. 1329	Sparkman and Tower	To amend laws relating to FNMA.
S. 1348	Brock	To provide for the establishment of safety standards for mobile homes in interstate commerce.
S. 1579	Dole	To provide for the demonstration of models of living arrangements for severely handicapped adults as alternatives to institutionalization and to coordinate existing supportive services necessitated by such arrangements, to improve the coordination of housing programs with respect to handicapped persons, etc. "Housing Opportunities for the Handicapped Act."
S. 1604	Brock	To prevent discrimination on the basis of sex in housing.
S. 1614	Percy	To require Secretary of HUD to furnish additional consumer protection services, and for other purposes.
S. 1743	Sparkman and Tower	Better Communities Act.
S. 1744	Sparkman	Community Development Assistance Act.
S. 1753	Hartke	To amend the Interstate Land Sales Full Disclosure Act to Provide for the licensing of developers inorder to insure the maintenance of high professional standards, and for other purposes.
S. 1834	Fong	To amend National Housing Act re property in Alaska, Guam and Hawaii; also the Home Owners oan Act of 1933.
S. 1850	Sparkman and Tower	To amend sec. 507 of the Housing Act 1949 to make the veterans' preference applicable to veterans of the post-Korean era.
S. 1851	do	To amend title V Housing Act 1949 to provide for the use of fee appraisers and construction inspectors.
S. 1967	do	To amend title V of the Housing Act of 1949 to expressly authorize the collection of taxes and insurance from rural housing borrowers, to authorize fees and charges to be available for administrative expenses, and for other purposes
S. 1968	do	To amend the title V of the Housing Act of 1949 to transfer certain farm labor housing and rural rental housing loans from the agriculture credit insurance fund, and for other purposes.

*See contents page iii for location of reprints of these bills in part 2 of this publication.

HOUSING AND URBAN DEVELOPMENT BILLS PENDING BEFORE THE SUBCOMMITTEE

Bill	Senator	Subject
S. 1978	Beall	To amend laws relating to the Federal National Mortgage Association.
S. 1997	Moss	To authorize the Secretary of Housing and Urban Development to encourage and assist in the development on demonstration basis of several carefully planned projects to meet the special health-care and related needs of elderly persons in a campus-type setting.
S. 2021	Hathaway	To recognize the role of certain State and local agencies in assuming the responsibility for carrying out low- and moderate-income housing programs, to affirm the continuing responsibility of the Federal Government in carrying out such programs, to facilitate the interim operation of such programs by those State and local agencies, to provide for the resumption of the operation of such programs by the Federal Government in an expeditious manner, and for other such purposes.
S. 2028	Hart	To regulate interstate commerce by providing for uniform and full disclosure of certain information with respect to the sale of dwellings for occupancy by not more than 4 families in order to promote sound and effective price competition and to prohibit unfair and deceptive sales and other anticompetitive practices, and for other purposes.
S. 2103	Javits	To amend the Housing and Urban Development Act of 1970 to provide a more effective approach to the problem of developing and maintaining a rational relationship between building codes and related regulatory requirements and building technology in the United States, and to facilitate urgently needed cost-saving innovations in the building industry, through the establishment of an appropriate nongovernmental instrument which can make definitive technical findings, insure that the findings are made available to all sectors of the economy, public and private, and provide an effective method for encouraging and facilitating Federal, State, and local acceptance and use of such findings.
S. 2169	Proxmire	To provide for the direct financing of low- and moderate-income housing programs under secs. 235 and 236 of the National Housing Act.
S. 2170	Proxmire	To amend the United States Housing Act of 1937 to require that 20 percent of new units in public housing projects be available for occupancy by large families.
S. 2171	Proxmire	To encourage low rise construction in public housing and elderly housing projects.
S. 2175	Brooke	To amend sec. 24 of the Federal Reserve Act to simplify, consolidate, and improve the law relating to the investment in mortgages and residential real estate by national banks, and to enable the Federal Reserve banks to extend credit to member banks on any sound collateral at a uniform rate of interest.
S. 2179	Williams	To establish a demonstration program to provide direct financing of housing for the elderly under sec. 236 of the National Housing Act.
S. 2180	Williams	To provide for increased security and protection for certain federally related housing projects.
S. 2181	Williams	To amend the National Housing Act to provide further assistance to public and private nonprofit corporations for the conversion of existing single family housing for occupancy by elderly persons of low or moderate income.
S. 2182	Sparkman	To consolidate, simplify, and improve laws relative to housing and housing assistance, and for other purposes.
S. 2185	Williams	To provide a $100,000,000 increase in the authorized funding for the sec. 202 housing for the elderly and handicapped program.
S. 2190	Abourezk et al	To provide housing for persons in rural areas of the United States on an emergency basis.
S. 2228	Brock	To provide for greater disclosure of the nature and costs of real estate settlement services, to eliminate the payment of kickbacks and unearned fees in connection with settlement services provided in federally related mortgage transactions, and for other purposes.
S. 2276	Javits	Neighborhood Conservation Act.
S. 2288	Proxmire	To regulate closing costs and settlement procedures in federally related mortgage transactions.

*See contents page iii for location of reprints of these bills in part 2 of this publication.

Senator PROXMIRE. Mr. Lynn, we are happy to have you. And, Under Secretary Hyde, we are happy to have you, too, sir.

Go right ahead.

STATEMENT OF JAMES T. LYNN, SECRETARY OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY FLOYD HYDE, UNDER SECRETARY

Mr. LYNN. Thank you, Mr. Chairman. It is good to be here today.

The committee has asked me to testify today on two community development bills presently before this subcommittee—S. 1743, known as the Better Communities Act, which was prepared by the administration and introduced on May 8, 1973, and S. 1744, which Chairman Sparkman introduced on the same day and which incorporates the provisions of chapter III of the omnibus housing bill passed by the Senate last year.

I should stress at the outset that while there are significant differences in certain provisions of the two bills, the bills reflect substantial agreement on basic objectives, approach, and on most of the substantive issues.

First, and most fundamental, we seem agreed on the concept of special revenue sharing or block grants—whichever term you prefer—which provides formula-calculated entitlements based on objective factors producing sums certain year after year to local governments for community development needs.

We both want to see the end of inordinate, needless processing delays inherent in the project-by-project approach, and, most importantly, the elimination of the dependency syndrome which presently relegates local officials to second-class status—that of supplicants or, if you will, "grantsmen"—and at the same time allows them to escape full responsibility to their constituents because there is always the Federal bureaucracy to blame when anything goes wrong. Since local officials in any community are, after all, the elected government officials closets to the people, they can be expected to be the most responsive to the people on issues which immediately and vitally affect that community.

Second, we seem agreed on the necessity of holding harmless at least initially, communities which would, under the needs formula, receive less than they had been receiving under the categorical programs being replaced, in order to help such communities toward completion of current activities.

On a related point, we also seem agreed that communities which have been receiving less under the categorical programs than they would under the needs formula entitlement should "phase in" to the new arrangement rather than immediately jumping to the entitlement level.

Finally, I know that we are both in agreement on the need for prompt action. I stated to this subcommittee last April that I believed our proposed funding level for community development programs for the transitional period of fiscal year 1974, albeit frugal, would not result in severe hardship from the national perspective, particularly in view of the large amount of funds which would be committed but unused at the end of fiscal year 1973 and in view of the accelerated

procedures for funding commencing July 1, 1974, under the proposed Better Communities Act.

However, you will also recall that I stated we had urged individual meetings between HUD and city officials on a community-by-community basis to determine whether the funding limit proposed would create situations in particular communities inconsistent with the reasonable transition we desire. We said we would listen and we wanted to be fair.

Although we do not have quite yet a complete analysis of the situation community-by-community at this point, inasmuch as year-end allocation and reallocation did much to avoid transitional problems in a number of communities, our present assessment indicates that some additional funds are in order.

In my June 21, 1973, letter to the Senate Appropriations Committee, I estimated these needs as in the range of $155 to $185 million more for Urban Renewal, and $50 to $75 million more for Model Cities programs.

But what will be needed for fiscal year 1975 will be assurances well in advance of July 1, 1974, to our communities that funding at definite levels will be available. I, therefore, applaud the action of this subcommittee in moving ahead promptly with hearings on these important matters, and I promise the Department's expeditious cooperation with the Congress as it moves toward enactment of improved community development legislation.

I should also note that last year the House subcommittee extended entitlements to urban counties which have populations of 200,000 or more exclusive of metropolitan cities, and other localities therein which qualify for hold-harmless treatment. In the Better Communities Act, we have accepted this approach and have included urban counties along with metropolitan cities as entitlement units of local general government. However, the capacity of certain urban county governments to handle community development funds has been questioned, and we would like to consider this matter with you as work on details of the legislation proceeds.

Neither the prior administration bill nor the Senate and House bills of last year included any role for State governments except as recipients, potentially, of secretarial funds. We have thoroughly reconsidered this issue and in the Better Communities Act have provided for a significant but limited State role.

On the one hand, there are those who say States have no role to play in community development primarily because most of them have heretofore eschewed any responsibility in this area. On the other hand, there are those, including those at the National Governors' Conference last June, who believe that all Federal moneys should be channeled through the States either for the States' own expenditure on community development projects or for redistribution to localities within the States.

This is not an issue of whether all funds should be distributed to all communities of any size by formula. There appears to be agreement that inasmuch as this approach would result, at reasonable overall funding levels, in checks for $100 or less going to some communities for community development projects which, by their nature, cannot be carried out with a flow of small dollar amounts, an element of dis-

cretion in the distribution of funds to smaller communities is necessary. The real issue, therefore, is who should exercise the discretion—HUD or State governments.

In our view, it would be wrong to ignore the unique position and capabilities of the States to work toward coordinated community development. By providing States with decisionmaking authority over some community development funds, cooperation between States and their localities will be enhanced, dependence on the Federal Government will be lessened, and Statewide community development goals can be implemented.

Moreover, a new State community development role will undoubtedly result in keener awareness by States of the effect of their decisions in program areas where States already have substantial action, highway location, environmental control, and taxation, to name but a few examples, or where, as in the case of land use and other planning, States may in the future play a far more significant role.

Such increased awareness by the States of the impact of their decisions on their communities cannot help but aid not only our urban area, but the State as a whole.

Accordingly, the Better Communities Act, in an acknowledged departure from all previous bills, would provide funds to the States, one-half of which must be redistributed to localities in specific SMSA's on the basis of the formula factors which gave rise to the State entitlement, and the other half of which, less reasonable administrative expenses, must be redistributed to localities anywhere in the State.

Under this arrangement, States will not have funds for their own community development programs but must, more appropriately we believe, distribute funds for use in local communities.

But what the States will have through control over distribution of these funds is the ability to coordinate and influence community development activities on a scale larger than the individual communities themselves.

We hope that the subcommittee will very carefully examine this matter in its deliberations.

As I stated earlier, there are, to be sure, a number of significant differences between the proposed Better Communities Act and S. 1744. I would like to discuss these differences and explain the reasons for the administration position.

First, there are the related matters of "prior program experience" as an element in the needs formula and the perpetuation of hold-harmless. Both the Senate bill and the House bill contained both of these provisions last year. Even assuming that one wanted to hold communities harmless forever, I am puzzled as to why both concepts are provided; they certainly seem more in the nature of alternative rather than complementary approaches.

More importantly, I question the desirability of the basic idea of holding communities harmless forever. Advocates of this position—principally those communities which have done exceptionally well under HUD's categorical programs in recent times—must know as well as I do that even under the categorical programs they could not have counted on any particular funding levels in the future.

In fact, the more such a community got in one or more recent years, the more its officials must have realized that maybe soon it would be somebody else's turn and their funding from the Federal Government would soon become a trickle.

Our position is simply stated: we recognize the need for holding harmless initially as a transition mechanism to help complete current activities, but we do not acknowledge the propriety of continuing the fruits of past grantsmanship forever. Recognizing that where the hold-harmless level is higher the wrench of a sudden switch to needs formula apportionment would not be fair, we propose maintaining such higher hold-harmless levels for 2 full years with gradual transition to the needs formula level over the next 3.

Hold-harmless funding transitioned into formula funding will give communities for the first time forward funding they can count on instead of having to rely on a hand-to-mouth, year-by-year, catch-as-catch-can categorical system where their important priorities get lost in a maze of annual redtape and on-again-off-again funding. And most important, from the standpoint of equity, the most objectionable feature of a hold-harmless provision beyond the transition period is that it denies other communities their rightful share of Federal community development funds determined by objective criteria of need.

A second significant difference between the Better Communities Act and S. 1744 concerns the related matters of application process and HUD's review process.

Both bills reflect the basic concept that citizens in the community receiving funds from the Federal Government should be advised as to the purposes for which the funds will be used and have an opportunity to express their views. In the Better Communities Act, a preliminary statement of purposes must be published 60 days prior to finalization of the statement, and comments made by interested persons and groups must be taken into consideration in finalization of the plan.

In contrast, S. 1744 requires public hearings in the event private land is to be acquired and, in any case, requires "adequate opportunity for citizen participation in the development of the annual application."

S. 1744 also requires provision "for the meaningful involvement of the residents in areas in which community development acivities are to be concentrated in the planning and execution of these activities, including the provision of adequate information and resources."

All local governments permit citizen participation through the electoral process. In addition, citizen participation takes place through a variety of mechanisms ranging from the town meeting to formal hearings.

Because we do not seek to modify these differences, we have sought in the administration bill only to require that the citizenry be informed of community development plans and to insure that citizen views are considered. We believe there is no national purpose to be served in prescribing the exact manner in which such views are to be expressed or considered. Of course, any attempt to evade the basic requirements imposed by the Better Communities Act by sham would result in withholding of funds.

S. 1744 also specifies in detail the contents of an application. There must be an outline of community needs and objectives and actions to be taken over the then ensuing 3-year period—first, to meet housing needs of families who may reasonably be expected to seek housing in the community, particularly families with low or moderate incomes; second, to prevent and eliminate slums and blight and upgrade neighborhood environments through renewal, code enforcement and other

community improvement programs; and third, to improve and upgrade community services and facilities to meet the social needs of residences in areas affected by community development activities. There must also be a description of the activities to be undertaken during the then ensuing 2-year period which are designed to meet the objectives, their estimated cost and general location, and any requirement for federally assisted housing units and rehabilitation. The applicant must certify that the activities are consistent with local and areawide comprehensive development plans and national growth policies.

Under S. 1744, the Secretary must make a determination on the application within 90 days and cannot approve an application unless he concludes that a community has "(A) set forth a meaningful program to meet its urgent development needs and to achieve the purposes of the act, and (B) carried out its contractual commitments pursuant to any previous applications."

In contrast, the Better Communities Act sets out permissible activities for which funds may be used which are, in essence, any activities eligible under the seven categorical programs being replaced, including their planning and administration. From these eligible activities, communities are required to set forth, in an annual statement of purpose, what they intend to use the money for. Finally, the Department, through postaudit procedures, would determine whether the moneys have in fact been spent for the stated purposes.

There are a number of reasons that we urge a simplified application and approval process. First, the whole idea of special revenue sharing or block grants based on a needs formula is to eliminate the competition among grantsmen which has heretofore taken place on the battleground of the application process. The thrust of this competition seems to have been that HUD would reward those who would in its judgment—and based on the persuasiveness of the application prepared by the community or by its consultants—eliminate the most blight, create the most open space, have the best plans, or whatever. In contrast, when need is determined under a needs formula using the objective factors of population, housing overcrowding and poverty (counted twice) as in the Better Communities Act, we think the basic purpose of a plan or an application is to inform the public and HUD as to what the funds are to be used for. The formula—not competing applications—determines that a community needs more or less funds relative to other communities.

Second, we believe that local communities are in a better position to set their own community development priorities—whether they need housing, renewal of areas of slums and blight, creation of open space, improvement of water and sewer systems, experimentation in local neighborhoods, improvement of recreational facilities, infrastructure for job-producing businesses to replace lost industry, or whatever—than are we at HUD or, with all deference, are you in the Congress.

As the President has stated:

> Local priorities differ; the intensity and order of local needs vary.
>
> Clearly, no single, rigid scheme, imposed by the Federal Government from Washington, is capable of meeting the changing and varied needs of this diverse and dynamic Nation.

There is no "best" way, no magic, universal cure-all, that can be dispensed from hundreds or thousands of miles away.

What is good for New York City is not necessarily good for Chicago, or San Francisco, much less for smaller communities with entirely different economies, traditions, and populations.

Third, the new program of special revenue sharing should allow local officials to spend their very valuable time solving local problems rather than drafting applications which will strike the fancy of Federal officials.

Fourth, we desire that the money be available to communities on July 1, 1974, and this is possible under the Better Communities Act. There would be no lengthy delay involved in preparing detailed application forms and in a 3-month HUD review period.

Finally, we do not think it is the place of HUD bureaucrats to determine whether a particular local community has a "meaningful" program. Meaningful to whom? To HUD bureaucrats? If the program is to be "meaningful to the community," the best test is to place responsibility on locally elected officials who will not remain in office for long if the citizens decide that the program is not meaningful enough.

Advocates of HUD review seem to assume that Federal participation assures meaningful expenditures at the local level, particularly for the needy. But, I ask, how much have the needy really benefited from our seven categorical programs? I think you will agree that the honest answer is "Not much."

I suppose then, the advocates of HUD review will counter that this is because HUD bureaucrats are not doing a good job. I suggest, however, that it is unreasonable and just plain unrealistic to expect any Federal official, however industrious and well-intentioned, to be so knowledgeable about the problems, opportunities, and needed priorities for action of a particular community that he can properly second-guess the plans put together by the community itself.

To sum up on this point, although we fully realize that all communities will not respond uniformly when responsibility and resources are shifted to them, we believe strongly that overall, and increasingly, they will do a substantially better job than we have done, and that Federal second-guessing of their approaches would only stifle rather than foster the kind of innovative, productive effort we all seek.

There are other differences between the Better Communities Act and S. 1744. We have folded in Model Cities and rehabilitation loans whereas S. 1744 does not. We see no reason why a community should not be free to alter, expand, or phase out these community development programs in terms of its own priorities. In fact, we see a real danger in burdening local governments with separate programs with separate administrative structures aimed at achieving essentially the same goals for the same people.

Another difference is the elimination of a local match requirement in the Better Communities Act. As the subcomittee is aware, local match requirements—particularly those provisions permitting non-cash contributions—have eroded in their actual application to the point where nearly anything goes, and it is questionable whether the basic objective—promoting local interest in the project through requiring local funds—has much meaning.

Of more importance, we believe that making local officials take the responsibility for deciding how the funds will be spent is a better way to assure proper attention to priorities.

Finally, experience has shown that the determination of non-cash contributions is among the greatest producers of redtape, delay, and confusion in connection with community development programs.

The Better Communities Act also has several features related to the close out—completion—of urban renewal projects. Under Better Communities Act rules, a community could phase in funds from reservations in old projects under urban renewal and thus free itself as to such funds from narrow contractual constraints attendant to those projects.

A second feature would permit the Secretary to order a closeout in appropriate circumstances. Without this provision, numerous projects would limp along without completion with a large part of the project funding going to needless, wasteful, administrative overhead. The requirement that the Secretary consult with the local agencies involved and with the chief executive of the relevant local government provides assurance that this secretarial authority to close out projects will not be used unfairly.

Further, the concentration on closeouts reflected in fiscal year 1973 funding allocations and in proposed fiscal year 1974 funding allocations will substantially reduce the need to use money distributed under the Better Communities Act to complete old projects.

Let me reemphasize one thing: under this proposal, no community will lose so much as a single nickel previously committed to it under the urban renewal program.

Finally, while the Better Communities Act expressly permits local communities to obtain loans to finance community development activities and to pledge its assets to secure such loans, S. 1744 would go further by authorizing the Secretary to make loans to these communities to finance planning and operating activities pending the receipt of grant assistance.

The S. 1744 provision for Federal loans seems to ignore certain basic differences between the present system of categorical grants under conventional urban renewal and revenue sharing under the Better Communities Act.

In the first place, the typical categorical grant situation under urban renewal—a loan being made to tide the local authority over until it takes down funds under its grant 6 or 7 years into the project—would not exist under the act. Instead of funds being taken down near project completion, funds would be distributed annually.

Second, loans are now secured by grants which will be made pursuant to existing contracts with the Federal Government. S. 1744, by contrast, would permit loans on the security of statutory grants that may no then have been appropriated. Accordingly, we do not believe the loan provisions of S. 1744 are advisable.

Mr. Chairman, I trust that this statement constitutes good and sufficient evidence that we in the administration are deeply interested in early and appropriate transformation of categorical community development programs into a better system—a system more responsive to community needs and desires. We are and will remain available for discussion about any aspect of this matter, and we earnestly desire to be

of whatever help we can in the work of coming up with the best bill possible. I do, however, want to emphasize that we desire a true shift of power and responsibility in community development decisionmaking from Washington to local governments, we desire that the pattern of past grantsmanship not be perpetuated indefinitely and, finally, we desire an overall funding level for these purposes which is consistent with a noninflationary budget and no tax increase. Thank you.

Senator PROXMIRE. Thank you, Mr. Secretary.

Mr. Secretary, I said in January that, and I quote, "any Secretary worth his salt should fight within the administration to end the moratorium as soon as possible."

I still believe that. Do you?

Mr. LYNN. No, sir, I do not. I believe that my responsibility at the moment is, first of all, to carry out the statements that Secretary Romney made in his Houston speech announcing the suspension, which means completing the job of identifying and honoring commitments in addition to processing the applications that were already in the pipeline, and to expeditiously further the housing study that has been commenced so that the President may meet the September 7 timetable that he announced for presenting his approaches to housing policies and programs to Congress.

Senator PROXMIRE. Well, I said "end the moratorium as soon as possible." I don't understand why you can't——

Mr. LYNN. I'm sorry.

Senator PROXMIRE [continuing]. Do these things——

Mr. LYNN. I thought you meant by "end the moratorium as soon as possible" using the word "possible" to mean by announcement, say, tomorrow, to try to make the term "possible" mean something like that—tomorrow.

Senator PROXMIRE. I would want to do that myself. I am not asking you to do that. I wouldn't expect you to.

But the question was whether you felt the Housing Secretary should do his best to end the moratorium as soon as possible, recognizing these objectives that you want to achieve as you end it.

Mr. LYNN. The problem with that from my standpoint, Mr. Chairman, is that I don't know at this point whether or not our suggested policy recommendations will be to restore the present programs in whole or in part.

I can agree with you that I think the objective of the Secretary of Housing and Urban Development should be to come up with—or to put the President in a position to come up with—our recommended policy program recommendations as soon as possible.

Senator PROXMIRE. Have you done that yet?

Mr. LYNN. I can say to you that we have been moving as rapidly as anyone possibly could to put the President in a position of coming up with those policy recommendations.

Senator PROXMIRE. Have your recommendations gone to the President yet?

Mr. LYNN. They have not, sir.

Senator PROXMIRE. When do you expect them to go to the President?

Mr. LYNN. I will be meeting with the President, I expect, in the course of the next couple of weeks to bring him up to date on an informal basis as to where we are at that point in time. We will also be

distributing to sister agencies some rough cuts of options within the next week to 2 weeks.

Senator PROXMIRE. When will the President be able to consider your recommendations fully? You say you will be giving him a fill-in, a kind of an interim report, but I take it if you are going to meet this September 7 schedule that you have another date in mind as to when you will report to him finally.

Mr. LYNN. I would certainly hope at least a month before the time for his recommendations to the Congress.

Senator PROXMIRE. Have you, Mr. Lynn, as counselor to the President or as Secretary of HUD urged OMB to release more housing funds—urged the Office of Management and Budget to release more housing funds?

Mr. LYNN. What I am doing at the moment is reviewing with OMB the funding levels that we would require for fiscal year 1974 in connection with the honoring of the commitments that Secretary Romney referred to.

In that connection, I have asked for a release of funds in fiscal year 1974 to meet additional commitments that we have identified.

Senator PROXMIRE. Have they said yes or no?

Mr. LYNN. I am due to sit down with them either today or tomorrow.

Senator PROXMIRE. I see. How much are you asking?

Mr. LYNN. I would prefer not to answer that question, Mr. Chairman.

Senator PROXMIRE. I asked in January if you had ever talked with the President about the housing moratorium. I indicated concern because of the President's reported isolation from important domestic questions. You answered as follows:

> I have not personally discussed the action that was taken as announced by Secretary Romney with the President, but I am advised that the President certainly is aware of it and understands it, that it is, as Mr. Cole states in the letter response on behalf of the President.
>
> Question. Now I ask have you talked with the President at all in the last few months, Mr. Lynn?
>
> Answer. Yes.
>
> Question. How recently?
>
> Answer. Day before yesterday.

Now, I want to bring that up to date if I can. Have you ever talked with the President about the moratorium and its impact?

Mr. LYNN. No, I have not.

Senator PROXMIRE. You have not talked with him? Have you ever directly urged him to restore housing programs?

Mr. LYNN. I have not.

Senator PROXMIRE. You have not because you concurred in the policy that the program should be suspended pending this study and pending your determination as to whether you should go ahead? Is that the reason?

Mr. LYNN. Yes, sir.

Senator PROXMIRE. Do you agree with the judgments of the HUD program made by the Office of Management and Budget?

Mr. LYNN. Would you repeat that question, sir?

Senator PROXMIRE. Do you agree with the judgments of the HUD programs made by the Office of Management and Budget?

Mr. LYNN. Which particular judgments?

Senator PROXMIRE. Well, I'm talking about the limitations on the funds made available by the Office of Management and Budget, whether you asked for more, whether they reduced you, whether you felt that the amount that OMB approved was adequate.

Mr. LYNN. I think my answer has to be in two parts, Mr. Chairman.

I agreed with the actions that were decided by the administration before I took this office with respect to the suspension and termination of certain programs. On the other hand, I have gone back to OMB with respect to requests for further funds, as I said a little earlier, first of all in order to honor commitments as we have identified them, and, secondly, as you know, Mr. Chairman, from the other position that you hold as chairman of the Senate Appropriations Subcommittee, I went back to OMB as a result of our community-by-community examination to request additional funding in the urban renewal and model cities programs so as to assure that a reasonable transition to the Better Communities Act will be able to take effect on July 1, 1974—I might add successfully.

Senator PROXMIRE. I'm sorry. Go ahead. Did you have something else to add?

Mr. LYNN. No, sir.

Senator PROXMIRE. In your testimony last January you said that Mr. Cole's statement that HUD programs were ineffective and counterproductive left the door open to evaluation because he referred to mounting evidence in support of his conclusion. Is the evidence mounting?

Mr. LYNN. Yes, sir.

Senator PROXMIRE. Can you give us what this evidence amounts to—this mounting evidence?

Mr. LYNN. I would prefer, Mr. Chairman, to let our written analysis, which will be available on or before September 7, speak for itself.

You will recall that in the oversight hearings held in April I said I faced a fundamental question as to whether to package that evidence separately or to proceed in tandem with our appraisal of alternatives and decided in favor of proceeding in tandem.

I believe, however, that the written submission that will be available on or before September 7 will demonstrate very clearly that there was and is such mounting evidence.

Senator PROXMIRE. The hearings that we have had before the Housing Subcommittee of the Appropriations Committee and also in the Joint Economics Committee indicated contrary information. You are convinced that the evidence is mounting in support of the ineffectiveness and counterproductiveness of the HUD programs that have been suspended?

Mr. LYNN. Yes, sir. Let me add, though, as I added in my testimony in the April hearings, that it is not entirely programmatic, although it is certainly programmatic to a large degree, but also administrative to some extent. In other words, the way the programs have been shaped under the existing laws have been at least partly to blame.

Senator PROXMIRE. You have come to the conclusion that we better serve the national interest by suspending the programs entirely rather than continuing any part of them while the study is going on?

Mr. LYNN. Yes, sir.

Senator PROXMIRE. It is very difficult for us—and we have tried hard to get outside experts to support your view—it is hard to find people who do. The people who have testified not only from the interests groups but the outstanding economists from universities, and so forth, all seem to feel that these are programs that should have been continued, although they would agree with you in almost every case that there are shortcomings in them and areas that could be improved.

They feel that the need for housing for low and moderate income people is so urgent that this loss is one that is going to be extraordinarily difficult to make up.

Mr. LYNN. Mr. Chairman, the one thing I would like to emphasize is that we have at this point in time in no way foreclosed as an option the possibility of returning to the use of one or more of these programs.

One of the reasons why I am in favor of the suspension is that the totality of the programs as being carried out I feel is fraught with inequity and waste. And, very frankly, it would take an appreciable period of time even to amend the procedures and the administration cast of these programs, and it seems to us that that ought to be done only after we have evaluated the programs entirely to see whether or not there are better alternatives to the programs themselves.

Senator PROXMIRE. Even at that point I can see difficulty. Suppose we don't have a housing bill this year. What do you intend then to do about maintaining housing and community development programs? Nothing?

There is a very unfortunate likelihood that by the middle of October, when we adjourn sine die—it was the determination of the leadership to adjourn the 1st of October, but this morning I talked to Senator Byrd and he felt the 15th of October or so was about the realistic estimate of the time—there would be some chance that we wouldn't have any housing programs. I'd say 50/50 perhaps. Then what do you do?

Mr. LYNN. Having been in government for about four and a half years, Mr. Chairman, my approach would be to look at the situation at that time.

However, I would still say that as far as putting these programs back on again in the way that they have been conducted in the past is something that I would resist strongly.

Senator PROXMIRE. My time is about up, but I would hope that you would have a plan prepared to deal with the situation in which the House fails to act on a Senate-passed bill—could be vetoed by the President, could not pass the House perhaps. It may not pass the Senate by then. I would hope that you would have a program developed to act in the event that this occurs.

Senator Brooke.

Senator BROOKE. Thank you, Mr. Chairman.

Mr. Secretary, at your confirmation hearing I made an opening statement touching upon a whole spectrum of problems facing HUD, and my subsequent questions to you, as you will recall, focused on the question of impoundment and its effect on the housing picture, the timetable for new legislation, the desire to replace existing programs, the moratorium on subsidized housing, the problems of minority contractors, executive privilege, and problems relating to so-called Brooke amendments.

And I placed in the record my concern over practically every issue of our housing policy.

Now, you repeatedly declined to answer those questions or to get into them substantially on the basis that this was a new job for you and that you were too new to the whole field of housing policy. Do you recall that?

Mr. LYNN. Yes.

Senator BROOKE. But you did promise two things. One, that you would investigate all the chief policy issues in HUD and either formulate new solutions or return to administering old ones, and two, in either case that you would be available for contact with us and would cooperate with us, this committee, notwithstanding any claims of execuive privilege open to you as a presidential counsel at that time.

You gave no timetible for propounding your solutions to our housing problems, but you indicated that 18 months would not be required. Do you recall that?

Mr. LYNN. I do, sir.

Senator BROOKE. You promised to move as quickly and as expeditiously as you possibly could.

Now you appear before us today on the Better Communities bill, but there are certain questions outside of that bill which the chairman has touched upon and which are still of very deep concern to me personally, and I think to the committee, and to the country, that I would like to discuss with you.

At the time of your confirmation I accepted the thesis that in light of HUDs problems perhaps it was wise to appoint a fresh mind and one that was free of any preconceived ideas. But I did emphasize that time was of the essence, and I think you agreed.

Mr. LYNN. I did.

Senator BROOKE. And you promised to come back again and testify more fully on housing matters.

Now I would like to raise these questions with you.

Surely even though HUDs formal study of our housing programs is not scheduled to appear, you have already put together some tentative conclusions about the broad outlines of HUD policy, have you not?

Mr. LYNN. Of HUD policy, sir?

Senator BROOKE. Yes.

Mr. LYNN. In what particular area?

Senator BROOKE. All right. I will give you those particular areas.

You told me that it was possible to consider concepts apart from the administrative matters and that your study concerns chiefly administrative matters. But questioned in January on policy matters such as impoundment, you said you didn't know a heck of a lot about them yet, and you couldn't even give a glimmer as to future policy.

So we received less than the traditional look at you as a Cabinet nominee.

I went along with your cooperation because of my respect for you and your promise to work out specific recommendations to Congress.

And you have had what? Seven months now?

Mr. LYNN. No, sir. I was confirmed, if I recall correctly, the beginning of February. That would be—what? Five months?

Senator BROOKE. Well, 6 months. Let's call it closer to 6 months, I think, you have been in the job.

Mr. LYNN. Would you buy a little less than half a year?

Senator BROOKE. All right. Now, of the three key administration bills, you have only come up with one, the Better Communities bill. Is that right?

Mr. LYNN. Well, we also had other key legislation.

Senator BROOKE. You haven't filed it, have you?

Mr. LYNN. Oh, yes indeed.

Senator BROOKE. What have you filed?

Mr. LYNN. We filed a bill to improve upon the flood assistance legislation. We have filed a bill to improve disaster assistance.

Senator BROOKE. Let's get to housing specifically and related matters. You filed the Better Communities bill?

Mr. LYNN. Yes, sir.

Senator BROOKE. But we know nothing about your proposals on housing at all. We know nothing about the responsive government's bill. Right?

Mr. LYNN. Except there has been some discussion with members of staff, as I understand it, as to the format of that particular bill.

One of the things we are trying to do very much, Senator, on the Responsive Government's Act is to really do a first class job of getting advice before we submit legislation.

There is tied in with the Responsive Government's Act what the approach should be of the administration to fiscal year 1974 funding techniques under section 701, and we have been meeting with representatives of the Governors' groups, the mayors' groups, areawide planning groups, and so on, discussing those issues.

We would expect to have that legislation to the Hill very shortly now.

Let me say on housing I did say that I didn't think it would take 18 months. I did say that we wanted to move expeditiously. And I think that both of those points were confirmed by the President's statement in the community development portion of his state of the Union message when the President announced that he would have his policy recommendations to the Congress by September 7.

And we are doing our very best to stick by that date, and I have every reason to believe that a decision by that date will be achieved.

Senator BROOKE. Specifically, what can we expect on September 7?

Mr. LYNN. What you can expect by September 7 is, first of all, a substantial amount of fact gathering and analysis of where we are, consideration of alternative proposal, and the President's policy recommendation as to where we should go from here.

I do have in mind also Senator Tower's—what's the right word?—admonition at the oversight hearings in April that I would be very well advised to have whatever recommendations the President comes up with accompanied by specific legislation.

Senator BROOKE. Every day impoundment of housing funds continues it is working hardships. I am sure you are aware of that, are you not?

Mr. LYNN. I cannot deny that it has caused some hardships.

Senator BROOKE. Well, let's take an example of housing for the elderly. Our constituents have been asking what will happen to pro-

grams which but for the freeze would have received the go-ahead by now. This type of housing is not particularly tainted by scandals—as you pointed out, some housing programs have been, and I agree with you on the need for HUD to take a long look at its operating procedures where scandals have occurred. And although the freeze may not have entirely destroyed housing projects for the elderly, it certainly is delaying them and discouraging future ones. I think you are well aware of that.

Mr. LYNN. One of the interesting things, though, Senator, is the amount of housing for the elderly that is included within the total amount of commitments—or I should say within the total amount of applications already in the pipeline and by other projects that we have approved where we have identified commitments.

Senator BROOKE. Now, let's just take the build of housing. Because of the slowdown we are building houses now that should have been built last year. Isn't that correct?

Mr. LYNN. I don't quite understand that, Senator.

Senator BROOKE. I mean that because of slowdowns and the freeze on subsidized housing commitments we are not keeping pace with our building program. We are building now, houses that we had agreed to build in fiscal 1972.

Mr. LYNN. No; that is not true.

Senator BROOKE. That isn't true?

Mr. LYNN. No, sir. Because where, for example, a feasibility letter had been issued on a section 236 application, those projects have gone forward toward completion of the HUD processing, and the starts may or may not have begun, depending on how recently the final processing had been completed.

Senator BROOKE. All right. Can you tell us the number of the federally assisted starts recommended in your housing goals report for this year?

Mr. LYNN. That have been recommended?

Senator BROOKE. Yes. Can you tell me how many starts there have been since you have been in?

Mr. LYNN. I cannot, sir.

Senator BROOKE. You cannot?

Mr. LYNN. I must say, Senator, that I came here today prepared to discuss the Better Communities Act, and also to discuss one specific piece of legislation of housing that I had been told would be under consideration today. I had not been made aware that this session was to involve the overall spectrum of the housing program, so you caught me without materials, I'm afraid.

Senator BROOKE. Well, can we get you back to discuss the general policy concepts of housing?

Mr. LYNN. Senator——

Senator PROXMIRE. Will the Senator yield?

Senator BROOKE. Yes.

Senator PROXMIRE. It is my understanding the Secretary was informed, the staff tells me to discuss all housing bills before us. You were asked to testify on all of them.

We realize you have an interest which is perfectly proper and understandable interest in this bill you would like to discuss, but we want you to discuss all of them.

Mr. LYNN. There may be some misunderstanding, sir, because this was not the advice given to me by my staff. I'm sorry if there has been some miscommunication in that regard.

What other housing bills are before the committee?

Senator PROXMIRE. We have I think about 50 bills before us. We expected you to——

Mr. LYNN. If you would like me to come back and discuss the 50 bills, I will be happy to do it, Mr. Chairman.

As I said when I came here in January, I expect to be most cooperative with the committee. And if you would like me to come before you and testify on all 50 bills, I would certainly do so. I will leave out the word "happy" to do so, but I will certainly do so.

Senator BROOKE. We certainly want to discuss the Better Communities Act with you, Mr. Secretary, but we don't get an opportunity to meet with you often, and housing is important, as you are very well aware.

I think as I told you earlier, it is one of the most challenging jobs that you could have entered into.

Mr. LYNN. I certainly agree with you, Senator.

Senator BROOKE. And I am sure you are finding it that.

We want to know more about what your concepts are, what you are doing, what bills you are proposing, how long you are going to need to come up with some proposed legislation, or whether Congress will have to go it alone this year.

As the chairman said, there is a strong possibility we won't even have a housing bill this year. What happens under those circumstances is very important.

Mr. LYNN. You will recall, Senator, I appeared before the committee——

Senator BROOKE. In April.

Mr. LYNN [continuing]. On an oversight basis in April.

Senator BROOKE. Yes, I remember.

Mr. LYNN. At that time I stated that we would expect to have the President's policy statement by September 7. And I can say I am looking forward eagerly to appearing before this committee promptly after the time the President makes those policy recommendations to explore his recommendations and, of course, other alternatives that may have been presented to the committee.

Senator BROOKE. My time is up, and I hope to get back to you, but as you well know, I am very much concerned about public housing, for example, and I would like to know before I reach any conclusion on the subject whether HUD has conducted some independent studies and whether you can give us statistics and facts on public housing which will be helpful to us in writing the new housing bill, or whether we shall have to conduct our own hearings and go it alone. We would like to have the benefit of your proposals.

Mr. LYNN. What happened very early, Senator, was the establishment of liaison between the committee and our task force working on the housing study, and I believe that there has been a trading of factual data back and forth.

We invited the members of the committee and the staff to come over to HUD to see how we were proceeding with our study, how it was broken down into parts, the approaches that we were going to use.

I am very hopeful that within the course of the period immediately ahead I personally will be able to sit down with the members of the committee that would care to do so, but most certainly with staff, and explore some of the options with them and get their views as to what they think of various options that have been proposed to us.

You will recall, Senator, we put out a request for views of the private sector on where we should go with our housing policies. We were pleased to receive over, I think, 600 responses so far, totaling over 8,000 or 9,000 pages, and those responses are being taken into account in our study.

We have advised the staff that they are welcome to come and look at those materials, the responses that we have received from the outside.

We also anticipate having our outside consultants' reports made available to the committee and to the staff.

Senator BROOKE. Thank you, Mr. Chairman.

Senator PROXMIRE. Before I yield to Senator Stevenson, let me call attention to the letter of June 29 in which the chairman of this committee, Senator Sparkman, said, "I would appreciate it if you would be our first witness appearing on Monday, July 16, at 10 a.m. I assume you will want to testify on the community development bills, S. 1743 and S. 1744, but I would appreciate it also if you would cover housing programs and other matters that will be important to the subcommittee in preparing a new omnibus housing bill later in the year."

And you responded that you would be happy to testify on the community development bill.

In fairness to you, I think that was your understanding.

Mr. LYNN. The reason, sir——

Senator PROXMIRE. I think you do appreciate, however, as Senator Brooke has pointed out, we do have limited time. We want to cover as much ground as possible. We want to push through a housing bill early. And you want us to do so.

Mr. LYNN. We certainly want you to.

Senator PROXMIRE. While you are here—You are a very capable man. As has been pointed out, you have had several months in office. And I think you can handle most of these questions. To the extent you can't, we will be happy to have you expand your response in the record.

Mr. LYNN. Fine, Mr. Chairman.

Just for a little bit of clarification, apparently my staff did ask whether the committee wanted me to come back next week during the period of time you were getting more fully into housing, and the advice was that it wouldn't be necessary.

But, as I say, I am at the disposal of the committee.

Senator PROXMIRE. Senator Stevenson.

Senator STEVENSON. Thank you, Mr. Chairman.

I think the main point, Mr. Secretary, is that it is very difficult for us to consider housing and community development in isolation as if each were separate from the other. They simply are not. Housing is part of community development.

I would like to know right now—and I guess this is impossible—what the relationship is between the Better Communities Act and the future role of the Federal Government in housing.

I have to assume from what you have said this Better Communities Act has been put together without any comprehension at all of what the role of the Federal Government will be in housing. Is that right?

Mr. LYNN. I think the Better Communities Act was put together with the idea that whatever our housing component turns out to be, the Better Communities Act makes excellent sense as a replacement for the seven categorical programs that we have had.

Now, I am certainly not denying—I am confirming—that we look upon housing as an important element of community development, just as we look upon a number of other things as extremely important components, whether we are talking about transportation, whether we are talking about job training, whether we are talking about crime control, or whether we are talking about a number of other items.

One of the things that was so encouraging to me was the willingness of this committee to proceed with these hearings to get into the Better Communities Act and S. 1744 so that work could be done toward finalizing the block grant or special revenue-sharing approach in place of the seven categorical programs.

But, as you say, it is difficult for you, Senator Stevenson, it is difficult for me, because the President will most certainly speak on the administration's position in this area. Our promise has been to meet an extremely tight deadline, I might add, of September 7.

For me to comment, frankly, on housing proposals prior to that time is next to impossible.

Senator STEVENSON. In the meantime we are expected to mark up community development legislation without any recommendations from the President on housing.

Well, if we can't get policy recommendations from the President on housing, could we, short of that, get the HUD special studies on housing?

I believe that you in a letter to the chairman of this committee dated June 20 said that you would make available to this committee and its staff, final reports from special studies for which the Department has contracted in connection with the evaluation, and that final copies of some of the initial papers should be ready in about 1 month's time. This is 1 month from the date of that letter—almost. Can we get those special studies now?

Mr. LYNN. You certainly may have them, Senator, as soon as they are completed. I notice Mr. Moskow is not here today, and I would have to check with him as to which ones have been completed. I have been reading some that are marked "draft." I don't know whether they have subsequently been firmed up into final documents or not.

Senator STEVENSON. I am just informed by the staff——

Mr. LYNN. But we certainly want the Senate to have the benefit of these materials. I certainly want the Senate to have the benefit of those documents.

I must admit you certainly don't find uniformity, but you find them mind-expanding by way of things to take into account.

Senator STEVENSON. Well, they could be very helpful.

Mr. LYNN. Yes, indeed.

Senator STEVENSON. I am sure all the members would be grateful for them, as would I.

Many of these studies have apparently been contracted for outside of HUD. Could we also have a list of the contractors and the amounts paid for their services and the dates of the contracts?

Mr. LYNN. Yes, sir.

Senator STEVENSON. Now, Mr. Secretary, to return to the Better Communities Act, on page 10 of your statement I note that the permissible activities under the act are those now eligible under the seven categorical grant programs.

One of those categorical grant programs is model cities. Isn't it true that under the model cities program any activity is eligible for Federal support so long as it is approved by HUD?

And if that is the case, isn't it true, then, that any activity would be eligible for Federal support under the Better Communities Act?

Mr. LYNN. I don't believe that any activity is authorized by the model cities program. I do know that it is quite broad by way of its permission for such things as social services.

Perhaps Under Secretary Hyde, who should be the master of that program, would care to comment further.

Mr. HYDE. Yes, I think there is something in what you say, Senator Stevenson. However, I think we have to look at the total bill. You as a lawyer, I think, would agree.

Senator STEVENSON. Let me interrupt just at that point and rephrase my question slightly.

What activities, taking into consideration the whole bill, all the categorical programs folded in, including not only model cities but the other six, would be ineligible?

Mr. HYDE. Well, I had never looked at it from that point but let me see if I can get at your inquiry in this fashion——

Senator STEVENSON. You have never looked at it——

Mr. HYDE [continuing]. What would be ineligible? It seems to me, obviously, at the point of time where one looks at the total bill, you have to take into account at the very outset on what basis does a community receive funding. It receives funding on the basis of its population, its poverty conditions, and housing overcrowding.

I think that immediately sets the tone of what their entitlement is based upon, and what is to be expected of them in very general terms.

It seems to me if you start from that base and read the bill as a whole, I think reasonable men would conclude—and certainly I think local officials would conclude—that their overall approach would be in the context of the development or redevelopment of their community that deals with the issues that gave rise to their entitlement.

I think that's a reasonable interpretation.

Senator STEVENSON. Well, assuming, however academic the assumption may be, that some local official is unreasonable or not responsible and were, for example, to improve the real estate of public officials in some community or other, or embark upon some unreasonable program by most generally accepted standards, would it be eligible—let me go back to where I started. What is ineligible?

Mr. LYNN. If I might try a little further on that, Senator, I started with an earlier question when we were drafting the bill, and that was: What kinds of things are permitted by the Model Cities Act? I think for the other six programs they are pretty fairly well identified.

I agree with you that there is a vagueness about the Model Cities Act. The best I could get from various conversations I had was that there is a line—albeit a gray one—between things that are permitted under the Model Cities and are not permitted.

Let me give examples. That is the only way that I can at this point, because the question is so broad.

Demonstration programs in social services to see whether or not they work and to give them enough time to see whether they can work as an important element in community development are covered by Model Cities, as shown by the past funding efforts that have been made under the Model Cities program.

But at some point programs become so clearly enough operating programs that it was the judgment of the people I talked to that these programs no longer would be eligible for Model Cities funding.

Now, bear in mind that the Model Cities Act envisioned a 5-year program and, therefore, the effort still was one of trying new initiatives to see whether they would work. But there is that gray area, and we acknowledge there is a gray area.

I do think as a practical matter this isn't going to cause great difficulties under the statute, because looking at the funding levels and looking at the other things that are encompassed within the Better Communities Act, I don't believe we will be seeing communities spending a large portion of their funding on things that would present problems in this gray area.

Senator STEVENSON. Are you suggesting under this act, HUD would have the authority to cut off spending under the Better Communities Act of some demonstration program in a community?

Mr. LYNN. No, I am suggesting that as long as it is a demonstration program that it would be permitted, but that when it finally reached the point that it became a part of the regular operations of the city and had demonstrated its worth, then we would question continued funding. However, we'd have to work our way through this on a case-by-case basis.

Senator STEVENSON. Well, it sounds like general revenue sharing.

Mr. LYNN. No, not at all.

Mr. HYDE. Let me——

Senator STEVENSON. What is in ineligible then? It's general——

Mr. HYDE. Let me see if this helps, Senator. I get your point. It is difficult to get a handle on.

But, for example—I don't mean this to be facetious—let's take a look at the language, for example, of Senate bill 1744, the bill introduced by Senator Sparkman, to illustrate the other side of this coin.

Under section 7(1)(B), for example, activities for the following purposes are permitted: "To prevent and eliminate slum and blight, and upgrade neighborhood environment through renewal, code enforcement, and other community improvement programs."

Now, if we took that literally, without reading the full context of the bill, one could argue, as you have, literally nothing is ineligible.

If you eliminate slums, tear them down, you could build a new residence for the mayor. That is eliminating slums. But I don't think you and I as reasonable men would argue that that is what is intended by that provision of S. 1744 or by the Better Communities Act.

I think you have to look at the totality. And, believe me, the local officials do. When one is faced with any kind of a Federal program, literally every word is a word of intimidation to the local official.

So they do not take the intent, the overall intent, of the Federal grant lightly.

Senator STEVENSON. Well, I just point out that in S. 1744 an application procedure is established and HUD approval is required.

I happen to disagree with you about local officials. Most conscientious and responsible and thoughtful local officials that I have talked to feel as I do that problems are rarely solved with more money, that reforms are needed, that standards of performance are needed. They need to be gotten off the hook in many cases.

I don't see what this program offers except more money. It looks to me like another general revenue sharing program another different way.

Anyway, maybe we'll come back to this. My time is expired.

Senator PROXMIRE. Senator Taft.

Senator TAFT. Thank you.

Mr. Secretary, do you feel that there is any basis for the claim that housing, in effect, is being held hostage to inflation?

In that respect specifically, let me ask if your timing on working and reporting on these various items and the White House's timing is related to the inflation problem and related to OMB's concerns in that regard, rather than solving the housing problem?

Mr. LYNN. I think the principal reason for the suspension of the housing subsidized pogram is our assessment of the inequities and the waste of those programs.

If there is a program that we feel is not working well, then it ought to be suspended to give us time to look at other alternatives. And the fact that there could be some inflationary pull from continuing the program is an added factor, but I would certainly not say that it is the primary reason in this case.

Senator TAFT. Suppose you had a big dropoff in housing generally in the United States and you felt from an economic point of view that it was desirable to proceed with building of public and subsidized housing. Could you speed up your choice of various changes that you would want to make?

Mr. LYNN. I really don't believe so, Senator Taft. Even the timetable we have——

Senator TAFT. What would you do?

Mr. LYNN [continuing]. Is incredibly short term.

Senator TAFT. Would you expand the present programs on an interim basis, then?

Mr. LYNN. Which programs are we talking about?

Senator TAFT. Well, 235, 236

Mr. LYNN. I don't think I would. No, sir. I just think there are too many problems with those programs, at least as we have used them in the past.

Senator TAFT. What about public housing?

Mr. LYNN. Let me add to that, of course, we still have an extremely healthy starts rate in the United States, as indicated by the May figures for housing starts, both on conventional and on——

Senator TAFT. I understand that.

Mr. LYNN. And we are talking now less than 60 days for our timing in coming up with our own policy recommendations.

Senator TAFT. Has the recent interest rate change, the increase, affected your thinking on this since the May figures?

Mr. LYNN. Of course, the increase on the conventional side has been going on now for some months. It has jumped substantially within the

last month, if I recall correctly, something like 20 basis points or more. So, therefore, it is an area that we look at very,very carefully.

But when I take a look at things like unused permits and the level of production that we currently have, I have no reason to believe that there is going to be a really dramatic decrease in the number of starts.

Senator TAFT. But this isn't affecting your timing in making these decisions?

Mr. LYNN. It really cannot, Senator, because one of the things I had wanted to do in connection with the study is immerse myself totally in it. It was only last week that I started getting all of the consultants' reports and first drafts from the various in-house task forces.

As I kidded Under Secretary Hyde this morning, I was given a 2-foot stack of documents, and as quickly as I read through them they gave me new studies so that my stack is still 2 feet high..

I would hope by the end of this week that stack will be appreciably lower in size.

Senator TAFT. Rehabilitation loans, of course, or rehabilitation, is one of the fields covered by the Better Communities Act. Are you ready to say what kind of a provision we ought to be looking at insofar as rehab is concerned in a housing bill?

Mr. LYNN. No, I am not, Senator. Of course, rehabilitation is an extremely important area. It is also one that requires definition as to what we mean by rehabilitation. And it is one that we are looking at very, very hard in connection with the study, because preservation of existing housing stock is certainly an important element in an overall strategy.

The circumstances under which you engage in minor repair, extensive repair, rehabilitation is not an easy question.

Senator TAFT. Do you think rehabilitation ought to be covered exclusively under the Better Communities Act or do you think that there ought to be other rehab programs as well?

Mr. LYNN. All I can say to you at this point is that we certainly do not consider the folding in of section 312 into the Better Communities Act as the end of the rehabilitation matter. We are looking at rehabilitation and all of the gradations of rehabilitation as part of our housing study.

Senator TAFT. Mr. Secretary, it seems to me the whole premise behind the Better Communities Act is that citizens can best determine community development needs locally through the mechanism of local governmental process.

Many observers, however—I'd say perhaps even an increasing number—feel that the experience of general revenue sharing thus far indicates that the money isn't going to be used to address the needs of the citizens who need the most help.

We have seen golf courses built with general revenue sharing funds and similar horror stories in various parts of the country.

Are you confident that the revenue sharing approach, the special revenue sharing, through the Better Communities Act approach is a way to go in view of these experiences?

Mr. LYNN. I am fully confident that it is the way to go, Senator.

First of all, a good word for general revenue sharing, if I might. I don't care what program the Federal Government comes up with, you can find situations, as Chairman Proxmire has stated to me many,

many times, where the funding has not been spent in a way that you wanted to have it spent. Second, there is a fundamental difference between general revenue sharing and special revenue sharing, it seems to me. The general revenue sharing was given to these communities with the idea that they should spend it in accordance with their own ideas as to what they should do. With the Better Communities Act by contrast, we are giving the money to the communities on the basis of a needs formula tied two parts to poverty, one part to overcrowding, and only one part to population. With that kind of a formula it seems to us that we are going to see these communities respond with programs that are going to help the overall community development of their particular cities and particular help the people at the lower end of the income scale.

Senator TAFT. Do you think it is going to help get over such hurdles as you have had insofar as open housing and racial discrimination, for instance, as far as the Cleveland area is concerned?

Mr. LYNN. I think that the Cleveland experience, to the extent I know it, is one that is a housing situation primarily, and we intend addressing ourselves to the discrimination question as part of our housing study.

Senator TAFT. But do you think the local communities if they are given this authority—I'm afraid, frankly, because of that issue, that in some areas you are going to see either ignoring of any provision written into the bill against discrimination in housing or else complete stalemate of all programs at the local level.

Mr. LYNN. First of all, our act makes it very, very clear that these funds are not to be used for programs that result in discrimination as among——

Senator TAFT. I am certain we will write it that way, but I am just wondering if it is written that way whether it will not result in either ignoring it de facto or in a complete stalemate, because it seems to me that the local authorities are far less able or seem to be far less able to handle this problem—take the public housing area particularly—than HUD has been.

Mr. LYNN. Again, Senator, we do not look to the Better Communities Act as providing us the answers in the housing area. We hope to have some meaningful recommendations in the housing area in the President's recommendations due September 7.

Senator TAFT. Have you taken any action to try to get the Congress moving and get some resolution of the expiration of FHA and VA authority and the present paralysis that seems to exist at least in my own State with regard to present commitments even that are about to be closed. I'm getting a lot of flak on this.

Mr. LYNN. We have taken at least three steps, Senator. One, we want to have a simple 1-year extension. The House passed a simple 1-year extension of the FHA programs. And we earnestly desire that the Senate do the same and leave modifications of the FHA authorities to housing legislation.

Secondly, we have increased the interest rate from 7 to 7¾ percent dependent on our getting the extension of the programs.

And we believe that this will help people rather than hinder them in obtaining FHA financing.

Thirdly, I have asked——

Senator TAFT. Because it will eliminate points?

Mr. LYNN. That's right.

Third, I have asked as one of his No. 1 assignments for Mr. Lubar, the new Assistant Secretary for Housing Production and Mortgage Credit, to look at the other impediments that presently exist to streamline FHA financing, and, of course, Mr. Lubar is also involved in our housing study.

Senator TAFT. To move to another subject, are you going to be able to get a community development board or commission appointed in full? We have got Mr. Trevino through for you here, but what about the other members so that they can start to act on some pending applications?

Mr. LYNN. I am aware there are particularly two applications that are at about the point where they can have Board consideration, and I have that at the top of my list of priorities.

Senator TAFT. The projects themselves seem to be in great jeopardy unless very prompt action is taken, and I hope it will be taken before you have a failure or setting aside of the commitments that are already severely strained at least in one case.

Mr. LYNN. I am well aware of the problem.

Senator TAFT. Thank you.

Senator PROXMIRE. Before I yield to Senator Cranston, Senator Taft has hit very well and very hard at the importance of coordinating housing policy with community development policy, and that is one of the strengths I think of the Sparkman bill, S. 1744, which you discussed in your statement.

I point out on page 16, line 9, it says, "Each application shall contain the following: (1) An outline of community development needs and objectives, and the actions to be taken during the next 3-year period—(a) to meet the housing needs and needs arising from the installation or relocation of Government facilities, including replacement and relocation needs, of families who may reasonably be expected to seek housing in the community," and so on.

So that that is a requirement that gives I think greater strength to the Sparkman proposal.

Mr. LYNN. The only things I would say, Mr. Chairman—There is no denying that housing is an important component. I certainly feel that it is. But there are many other elements that are important components. One of the things, for example, that I have seen very clearly during my first 5-plus, almost 6 months in office is the need for an appraisal of job development. What jobs are going to be in that community over a period of time?

In fact, I am inclined to believe that the place a community should start is with an assessment of what its economic development picture looks like for the immediate future.

It seems to me we tend to deal more with symptoms than with the basic requirements. Our cities change. Their strengths and weaknesses vis-a-vis each other from a competitive standpoint change. And if we are going to ask questions of the communities, it would seem to me one of the first questions that you would want to ask them is: What do you foresee as the future of your community by way of economic development? Is it growing? If it is, in what kinds of jobs? Where will they be available? To what income levels will they be available?

Housing is important, but there are many, many, many other items that are also important. And if you once start trying to list them all, you will have a list like you have in the Model Cities or even longer. Secretary Hyde tells me that was one of the basic problems with the Model Cities Act. We tied up people for weeks and months and months trying to come up with pretty documents whereby whatever their priorities might be, our priorities were, "You have to talk about this, this, this, and this." And what we are trying to do is get rid of that.

We want these communities to assess what their priorities are for action in the next year, 2 years, that type of thing.

Senator PROXMIRE. Senator Cranston.

Senator CRANSTON. Thank you very much.

I am delighted we are having this opportunity of meeting with both of you today.

I sent you a letter after the January hearings, Mr. Secretary, asking you certain questions. In response to one of them you said, "I am unable to indicate a specific date for legislative recommendations," although you did indicate it would be before 18 months. Are we going to get specific legislative recommendations on September 8?

Mr. LYNN. As I said a little earlier, Senator Cranston, I have seared into my mind Senator Tower's admonition that I would be very well advised to have my specific legislative proposals at the time the President makes his policy recommendations in September.

I cannot say with complete assurance at this point in time that I would have all of such legislation, but I am going to do my best to try to be in that position.

Senator CRANSTON. Is that going to be specifically September 8?

Mr. LYNN. On or before September 7, I believe was the statement in the President's community development message.

Senator CRANSTON. Will these be——

Mr. LYNN. No, excuse me. He said it would be 6 months after his community development message, and the way that works out results in a date of September 7.

I am sure Mr. Moskow would love to have the extra day at this point.

But I don't want to cut it that close. I would like to—I certainly want to—be in the position of having the President in a position of reporting by September 7. If we could even do it sooner than that I would love to do that. But I look upon September 7 as my outside date at this point in time.

Senator CRANSTON. Will those be comprehensive, detailed legislative proposals or general policy recommendations?

Mr. LYNN. As I said a moment ago, I will do my very best to have the study accompanied by specific legislative proposals. I don't know at this point in time whether I will be able to actually carry that out, but certainly my target is to do so if I possibly can.

Senator CRANSTON. Regarding the Better Communities Act, what role will HUD personnel perform if they are divested of what you describe as their primary role of approving plans which strike their fancy?

Mr. LYNN. HUD has a number of roles. First of all, if you take a look at our commitment level for the existing seven categorical grant programs, you will see that there is a very substantial amount of

money that is committed and unspent. I am told by staff at HUD that fully 50 percent of the total HUD effort on these programs comes after the commitment is made, so there is substantial work in the years ahead for HUD in that regard.

Second, I would certainly expect particularly in the early years of the act that HUD experts will be consulted by the cities, the counties, and the States to use their expertise in helping the cities formulate their plans.

I say that very carefully because we do not want the HUD officials dictating to these communities what they put in their plans, but we certainly will be there for assistance.

Third, HUD retains important responsibilities in the area of planning and management. One of the things we have heard from the mayors is that, with the advent of the Better Communities Act, they see a need for further assistance in the planning and management category. HUD, of course, presently has substantial responsibilities under the 701 program and we are hopeful that it will have similar responsibilities under the Responsive Governments Act.

Fourth, under the act as we have submitted it, the Secretary of HUD, or I should say the staff of HUD, has the obligation of reviewing the plans to be sure that the types of projects that are being proposed are within the act's definition of permissible activities, of seeing that there isn't discrimination with regard to those plans either in their statement or in their actual operation, and of auditing to assure also that the plans were carried out.

Fifth, I have a responsibility under the act, as we have presented it, to evaluate its actual workings and, as part of our annual report to the President and the Congress, to give our appraisal as to whether the act is working the way it should and whether there are ways it should be improved.

Senator CRANSTON. Will HUD evaluate local performance, the success or failure, or reasons why, in terms of what happened with local programs?

Mr. LYNN. We will do our best, Senator. When I say "do our best," I mean that I find it extremely difficult if not impossible for a HUD official, no matter how knowledgeable he is, no matter how reasonable he is, to do a better job in assessing what a particular community, given the variation in communities, ought to do.

But we certainly will take a look, overall, across the country, to see whether or not it appears that the communities are making progress on their community development needs through this vehicle.

Senator CRANSTON. You state that under the act the department through post-audit procedures would determine whether the moneys have, in fact, been spent for the stated purpose, but wouldn't it also be necessary to make certain that the general performance measures up to some sort of a standard that is set for what we hope to accomplish under the act?

Mr. LYNN. As the act has been proposed, we would not either at the time of the plan or after the action year try to second-guess whether what the community has proposed was the right thing to do. Our post-audit inspection would be intended to cover the point of whether or not the community has actually spent the money in the way it said it was going to do.

But as part of my overall evaluation that I must give to the President and the Congress, we would want to see whether in more communities or not it appeared to us, using our own judgment, these communities were accomplishing the kinds of things that would appear to be right for them.

Senator CRANSTON. If the eligible activities are the same activities as existed under the categorical programs, how do you explain the President's budget which criticizes programs such as code enforcement, model cities, open space as being wasteful and ineffective? Where has waste occurred and will an automatic formula as proposed in the Better Communities Act solve all these ills?

Mr. LYNN. There is a distinction, Senator, between permitting a city or a county or other government being funded to engage in any of these activities and what I would reasonably expect they actually will do.

I think in view of our experience under certain of the categorical programs, you won't find a community spending much money on those particular activities.

Senator CRANSTON. Will the data for each community be updated each fiscal year, as to the changes in population, poverty, and housing overcrowding so that changes will be reflected in the money a community receives, or is that data fixed for the 5-year period?

Mr. LYNN. If I understand it correctly, a new allocation is fixed each year. As to the data that goes into the formula, however, this may not have been updated in one aspect or another. Also there would of course be a problem of using updated data for one community of similar data was not available for others.

Senator CRANSTON. Do you believe the metropolitan areawide organizations such as the councils of government have played a valuable role in reviewing applications for HUD funds under the A95 process?

Mr. LYNN. From what I have been able to determine thus far, they have performed on the whole a useful role. I think it has only been a step, however, and that we must give further consideration to what is the best way of achieving overall area planning.

Senator CRANSTON. You are giving them no role under this act, are you?

Mr. LYNN. We asked them, if I recall correctly, to tell us the way in which the activities they are proposing fit areawide or statewide plans.

Senator CRANSTON. One last question. Can you explain how small communities with less than 50,000 population will be treated under this act?

Mr. LYNN. They would receive their funding from either the State government or from HUD.

Let me explain a little further. First of all, as I know you know, Senator, there will be some communities under 50,000 in population that will be entitlement communities because they are the central city in an SMSA even though they do not have a population of 50,000. The Governors collectively are given the largest share of the discretionary funds. Half of the funds each State is given must be spent in the particular SMSA that gave rise to the Governor having those funds under the formula.

The other one-half of the funds given to the State may be spent in any SMSA or any other community in the State.

Senator CRANSTON. Thank you very much.

Senator PROXMIRE. Senator Biden.

Senator BIDEN. Thank you, Mr. Chairman.

Mr. Secretary, I have several questions. An awful lot of ground has been covered, and I will try not to put you in position of having to be repetitious.

Moving to that magic date of September 7 which everyone is talking about or September 8, whichever it is. I think you have explained what we can expect as well as you can explain it at this point in time, but I would like to add one other—I'm not sure my question relates to the September 7 date, but at what point in time are we going to as a committee or as a Congress get some concrete evidence justifying some of the repeated statements that are made by the administration such as on page 12 of your statement in the middle of the page, "But I ask you how much have the needy really benefited from our seven categorical programs? I think you will agree the honest answer is 'not much.' "

And we have heard time and time again how the programs haven't worked and they have been a failure. And Senator Cranston pointed out some reference to inspection programs under our existing system, how they have been failures and a waste of money, and so forth.

Is there any time we are likely to get a compilation of the results of the studies which you are having done by your agency or you are contracting for now when you are going to say, "We were right; this is specifically how it will be wasteful"?

Mr. LYNN. Senator, I think we have to make a distinction between the housing programs and the community development programs, the seven categorical programs.

As I mentioned a little earlier to the chairman, we expect in connection with the President's policy recommendations to submit that chapter and verse that you are referring to with regard to the housing programs.

As you know, the President's policy recommendations on September 7 are with regard to the housing programs, and part of our backup materials will be the evidence and analysis that we think shows why the programs as they are presently being conducted should be suspended.

Now, with respect to the community development programs, the seven categorical programs that would be folded into the Better Communities Act, I had not anticipated submitting anything to the Congress in that regard. My question in my statement was: How much have those programs helped the needy quite apart from what they might have done for community development generally? How much have they done for the needy?

I recall preparing for a press interview at one point. Someone asked on general revenue sharing, "What are you going to say if they ask you the question about this one community that is using its general revenue sharing money for a baseball stadium?"

And one wag down at the end of the table said, "How often have you gone to a baseball game recently that wasn't played in a stadium that was not built with urban renewal funds?"

My point here is simply that if you take a look at the overall impact of the programs we have as they relate to the needy, as to the lower

income people in the community, I don't think that the record is an outstanding one.

Senator BIDEN. Well, at the expense of appearing to be facetious, Mr. Secretary, I am not sure that there are a number of us who disagree with you on that point.

And although there is a great need for improvement in almost everything that affects the needy—we are giving them such short shrift all the way around—we have sold or some who have taken your position have attempted to sell the American public on the point of view that the programs which have been initiated in the past which were directed at helping the needy, those who need the help most, however we define needy, have been a bust, that someone else has been benefiting and the needy haven't been benefiting.

Now, last time you and I spoke here I was probably a little less than gentlemanly in my attitude toward you and you I think treated me the same way, and I am trying to be very, very polite about it. I am trying to be a good young freshman Senator.

Mr. LYNN. I certainly will be too.

Senator BIDEN. But it sounds a bit like the kind of campaign rhetoric some of us might use, let me say that I might use, in the campaigns. It's easy to say the needy haven't been getting the benefit, but I have yet to see any evidence specifically pointing out how the needy are being very bluntly "cheated" under present programs and how it is going to be changed under the future programs.

Mr. HYDE. Senator, if I might try to shed some light on that, I think neither the Secretary nor I would take the position that none of these programs has helped any of the needy. That was not the essence of the statement.

Senator BIDEN. It was not meant specifically.

Mr. HYDE. I think the point can be illustrated as to what is happening in those seven programs we are talking about best I think in making this point: When you look at a chart which we have here, you can see the processing time, the time from which a community applies for a given grant, to when the contract with HUD is actually signed. With lag time as substantial as we have in these programs, the needy are not being served. The money that the Congress has appropriated is tied up. The rules of the game make it a very disastrous thing for the community.

Let me just tick off a few, for example.

In the traditional urban renewal the chart shows some 31 months of lag time in processing to go into a signed contract.

In open space the lag is something in excess of 16 months.

With Model Cities, which is the closest kind of thing of an overall approach, in the first action year the lag ran in excess of 30 months.

In this kind of situation, the cost that this occasions a community could be better utilized in really getting down to the job of doing things, of implementing, of making things happen.

I think that is what we are trying to get at in proposing that we have a better way to do it.

I don't think that a debate as to how bad the other programs might or might not have been is really all that useful, but I think——

Senator BIDEN. Only to the degree that it would shed some light on how the new programs can be useful.

Mr. HYDE. I would agree.

Senator BIDEN. That's really all I am trying to get at.

Mr. HYDE. I would agree.

Senator BIDEN. We hear time and again debate in this Congress and back in our communities of the argument of whether or not we are—which seems to have been the administration position—wasting taxpayers' money ostensibly to help the needy and the needy aren't getting the benefit of that help.

And that always comes down when you're arguing here or back at home to how much is wasted. You hear people say things like, "Not 20 percent of the money intended for them is getting to them," and you hear others say, "No, that's not true. Sure, there's waste in the program, but 90 percent of what is intended is getting there."

And it really translates at least in the minds of my constituency to: How much of the money is being wasted? And I assume that is at least part of the question you are addressing. How much waste is involved in determining what programs are most useful? And it would be very helpful to me to either be specifically—and I don't mean for purposes of this hearing today—but for me to be very specifically corrected and shown the light that I am wrong in saying that 80 to 90 percent of the money we intended to get there, that was supposed to get there, gets there as opposed to most of it being wasted.

You hear terms like "most of it" or whatever.

I would like very much to have specific documentation, you know, to show where I am wrong in those kind of statements.

Seriously, that is the kind of thing I am trying to raise.

Mr. LYNN. Senator, I have not heard that kind of statement, the idea that 80 percent is wasted, and so on, in connection with these programs. Our point on these programs——

Senator BIDEN. By the way, these programs. I have been a bit unfair to you. I was talking about your whole jurisdiction, you know, of HUD. I am talking about everything from housing to these programs.

Mr. LYNN. I see.

Senator BIDEN. I didn't just mean these. But that is why I pointed out the statement about housing has been a bust, which has been essentially the administration position, that the categorical grants that are being folded into your community development have been at least in part a bust. You know. The whole idea it just hasn't worked, that we're wasting it, that it's not getting to the people. You hear that time and again.

That is the general area I was trying to address myself to.

Mr. LYNN. I think, Senator Biden, as I have said before on occasions before this committee, these are essentially matters of degree.

In the housing programs there isn't any doubt that there are some people housed today in better housing than they would have had without the programs, but it seems to me in evaluating a program as to whether it is a success or a failure you have to weigh what that program is costing, how many people are not being assisted, what kinds of inequities are being created as among different income classes, whether the approach is satisfactory from the standpoint of new housing as opposed to the use of existing stock, and so on.

In the housing programs we say that the programs have fallen way short in those and other areas.

On the community development side, I am sure you can and I can go to communities where one or more of these programs has had substantial impact on the needy, perhaps in the most important way of all in producing jobs for them by way of new activity downtown under urban renewal and the like.

But if you look at the total impact of the programs, we are stating it isn't that outstanding a record, and comparing it with something else, we find it far short. The something else in this case is allowing that community, which, after all, knows better than anybody else what its problems are, the opportunity to set its own priorities as to what ought to be done.

Senator BIDEN. Mr. Chairman, I have three more specific questions. I am probably already over my time, but I would like to get them in the record.

Senator PROXMIRE. Is there objection?

[No response.]

Senator BIDEN. You mentioned, Mr. Hyde, in a statement July 3, the weekly report of the Secretary of Housing and Urban Development of July 3, essentially what you just said here, that if you are going to have a detailed application form you are going to have to be ready to pay the price for them. Your specific quote is, "Anyone who flirts with continuing a detailed application process must consider the consequences."

And as a consequence of that feeling on your part, it seems as though in the administration bill here you have moved in the direction of trying to get away from what you refer to as nit-picking and that you leave it up to the local community to set out how, when and where they are going to do what they want to do, and with hardly any oversight.

Now, it has been pretty well expressed here in this committee and I think by other people in Congress that a number of Members of the Senate and Congress as a whole are interested in some continued Federal oversight of these programs. Now, isn't there a meeting ground somewhere in here where there can be some significant oversight without encumbering the localities as we apparently have under our present system?

Mr. HYDE. Well, perhaps there is, Senator, but not as I see it. I have very carefully read Senator Sparkman's bill again and again because I am concerned about this very issue. I think the crux of the Better Communities Act vis-a-vis the bill that Senator Sparkman introduced is the very fundamental issue as to how the Federal Government provides assistance to localities. Another fundamental issue in my mind is as to whether or not we are ultimately going to build that capacity at the local level to do the kind of job we all expect ought to be done and ought to be done better. And I speak with some experience from the local level as well as administrator of complex programs.

But let me give you an idea of what happens when you give greater authority and literally cut loose the strings, if you will.

We undertook an experiment within the model cities program called planned variations. We picked 20 cities, not all good ones. We wanted a mix. And we, to the extent we could within the statute, literally said, "Go citywide. Do just about anything you want to."

Now, our latest evaluation indicates some very significant things.

A first point that is extremely important: Without any rules, without any mandate from the Federal Government, without any demand, every one of those 20 planned variation cities have made changes in their governmental structure, beginning with some very, very drastic overhaul of their whole structural system.

Every single city on its own, given this new responsibility, said, "We have got to gear up and build our capacity to be able to do a better job."

Secondly, 70 percent of those cities have already decided that whether they continued to get Federal funds or not they would continue to pay for a review mechanism that we instituted in that program—chief executive review and comment on all Federal programs impacting the city.

In addition to that—and I think this gets at the heart of the issue—I am sorry Senator Stevenson left—I think this is very significant—80 percent of the cities on their own have planned and committed themselves to continue to fund an institutionalized citizen participation process. No mandate. No rule. They must.

And so on. I could go on with other examples.

Senator BIDEN. Mr. Secretary, isn't it true that in those cities—and I think there is one my State—that they, in fact, did those things predicated in large part upon the existing Federal programs and the need for them to be able to better facilitate using the existing programs? At least in my State.

Mr. HYDE. That reason still exists. In other words, you know, when we look at the $2.3 billion proposed in the Better Communities Act and you set against the range of other Federal funds available, many billions from HEW, from Labor, and so forth, and you look at it against, say, what State and local government are now raising and spending, $198 billion of their own, this $2.3 billion isn't going to change the world overnight.

But I think the point is that communities, given that greater flexibility—the first thing they do is respond by assuming more responsibility. That is, after all, what we're looking for.

Senator BIDEN. I have two more questions, but I will end with a comment on that. Hopefully I will get back to the questions.

Like yourself, I have had experience at the local level, very limited, as limited as my experience at the Federal level. And my experience at the local level is that if we are measuring competence and commitment to take on the tough problems, there is less of that at the local level, generally speaking, than at the Federal level, only because we are more isolated here and it doesn't take as much courage to take a position.

Mr. HYDE. I would respectfully disagree, but that's all right.

Senator BIDEN. Specifically, let's move out by way of example of the area of community development for a moment to housing.

I doubt very, very much that local city councilmen and county councilmen, when given the total responsibility for formulating a housing program and initiating it in a way that and the areas they see fit without the Federal guidelines, I'll lay you eight to five that there "ain't" going to be no public housing built. And if it is built, is is going to be

built right where it is now, and it is only going to be rebuilt, because I doubt very, very much that without some tough Federal guidelines, which to use Senator Stevenson's words help the local official on occasion to get off the hook and to say to his constituency "I'd love to keep those people out of your neighborhood but the Federal Government says we have to do it this way in order to get the following grant or programs"—that we are going to see meaningful public housing starts around this country if we put the responsibility with no strings attached, in effect, on local officials.

And the same with 235 and 236. So I guess that's philosophical.

Mr. HYDE. I do wish to clarify, Senator Biden, the Better Communities Act does not envision any role as to how or where localities or local officials would provide housing.

Senator BIDEN. I understand that. But it is a general philosophy that runs through your whole position, whether it be, you know, Better Communities Act or housing. What you are saying is the local officials are going to tackle the knotty problems and know how to do it better than we.

And you say things time and again—I don't mean this in an argumentative sense. My point is you say if a program is to be meaningful to the community the best test is to place the responsibility on the locally elected official who will not remain in office for long if the city decides the program is not meaningful enough. Meaningful to whom?

I grant they will not stay in if it is meaningful to the needy poor and it happens to infringe upon their lovely locality.

They stand up in areas like mine, the area where I live—and mine is as enlightened as any other area in the country—the educational standard I think is the second highest on a county basis nationwide—and you're going to get people standing up and saying, "I love my fellow man. I am concerned about his housing. But we happen to have a sewer problem here," or, "We happen to have a school problem. We happen to have six million other problems."

And they are saying the same thing in those areas as my less educated constituency down on a particular side of the city says, "We don't want no niggers here, boy. You understand me?"

And they are just two different ways of saying the same thing. And I have yet to see many local officials who want to appear in the second version of "Profiles in Courage." There aren't a whole lot of them around.

I really mean that. I don't know how I can say it——

Mr. HYDE. Let me—I don't want to belabor this point, Mr. Chairman, but I don't like to leave a statement like that unanswered.

I would agree with you there are local officials as you have described. I am not that pessimistic though, Senator Biden, that that is the prototype that you have described.

And, furthermore, as you know, we do still have our nondiscrimination provisions in here. In fact, our bill alone provides for the withholding of funds if there is discrimination, and, of course, there are the fair housing laws in which the Department has done I think a very reasonable job to try to make sure that kind of thing doesn't happen.

I see that as an issue separate and apart from what we are proposing.

Senator BIDEN. To clarify one last point, Mr. Chairman, and I will

be quiet, local officials have no less courage or more courage than Federal officials. They are just as less insulated than we are.

The only way we can take a position, we can say something now, as a U.S. Senator it's further removed. They are not going to be knocking on your door, No. 1. And, No. 2, we have 6 years in which to operate. And I think you have all detected a slight change in our attitudes. I can mouth off. I have got 5½ years before I run. I don't know whether I'd say what I just said if I were up 6 months from now, because I'd have to go back and someone in my community would say, "What did you say about me, boy? What did you say? What are you implying in such thing?"

There will forget in 5½ years from now.

Mr. HYDE. I doubt it. [Laughter.]

Senator BIDEN. At any rate, there are equally as many courageous and equally as many cowardly officials locally as there are federally, but when you are up every 2 years and you represent only 6,000 people in a constituency, you have them living in the same neighborhood with you, they knock on your door, they know you by your first name, let me tell you it's a heck of a lot harder being a county councilman than it is a U.S. Senator, from my very limited experience.

Mr. LYNN. I would say, Senator, there are some forces at work that I have seen not just in my time at HUD but my time at Commerce that I think have been changing the situation over a period of years.

The kinds of problems that we had in the cities in the mid-1960's has made the majority community much more aware than they were in the past of the need to take care of these problems. It isn't just a love of fellow man. It's the idea of having a city that will continue and remain healthy.

As I talk to people around the country, I have the feeling there is a growing awareness that if you are to have a community that is going to be healthy overall, you have to address yourself to the needs of the poor people in your community.

Secondly, I would say that what we proposed in the Better Communities Act will have a very salutary effect on the situation when the city fathers put together their plan. They will be very much aware that for 60 days that plan is going to be the center of attention in that community with the media, the interest groups, and so on, taking a hard look at it.

And knowing that that is so, I would say that even before you get to the 60-day period you are going to see an awful lot of time and attention by those city fathers as to whether or not that plan gives adequate attention to the problems of the needy.

The other point is that where everyone in that community, including the media and the interest groups, knows that the funding came through a formula which primarily pays attention to the needs of the poor, they are going to be looking very, very hard for what those plans do for the poor.

Senator BIDEN. Mr. Secretary, based on that statement, either you are one of the finest men I have ever met or you are one of the biggest phonies.

If you really believe what you said—I mean this sincerely—if you really believe what you say, I made a mistake voting against you.

Mr. LYNN. Well, let me say that I do believe this.

Senator BIDEN. OK.

Mr. LYNN. You will notice in my statement I very carefully said that not all communities are going to do equally well and people would be fools if they said otherwise. What I am saying is that taking this situation overall I think you are going to be pleasantly surprised at the amount of statesmanship that will be evidenced looking at the situation on a national basis.

Senator BIDEN. Thank you very much. I appreciate it.

Senator PROXMIRE. This has been one of the most interesting and helpful exchanges that we have had in a long time. I want to commend Senator Biden for putting his finger on the political dimensions of this thing. It is something we don't look at with sufficient concern. And I think that what he has said has been very, very useful to make this whole deliberation more realistic.

I am disturbed that we continue to hear that important HUD jobs are not yet filled, that many able career employees both in the region and in the central HUD are leaving HUD because they feel this administration does not want a housing program. Stories of chaos and confusion in HUD headquarters circulate widely. Your efforts are compared to those carried out by Howard Phillips at OEO.

Would you want to indicate what steps are being taken to retain the housing program and agency as you have?

For your benefit, one of the articles called to my attention was an article in the Government Executive for July, just out or very recently out, which says, "Lynn, a former Under Secretary of Commerce, had not been considered a top candidate for the HUD post. His qualifications, however, were impressive. He was young, energetic, and a dedicated advocate of the new federalism. He had no discernible political base and no ties to special interest groups. He would, it was decided in the highest level of the administration, be a perfect candidate to preside over the final dismantling of Great Society housing programs."

Now, I am asking this question particularly with respect to your staff. It is a problem when you have a moratorium on housing for this length of time and have at least the people who have been most articulate and vigorous in pressing for housing in this country opposing that moratorium. I should think it would be a problem holding on to your best people.

What has been your experience?

Mr. LYNN. I think that it is a difficult time for a number of HUD employees because primarily of the uncertainty at the present time.

We have uncertainty in two major areas within the Department. One, of course, is the housing area. And when you do put on a suspension of the existing programs, except for honoring commitments and except for processing what is already in the pipeline as far as subsidized housing programs are concerned, this does create uncertainty and, therefore, is somewhat demoralizing.

Likewise, where we are proposing a fairly fundamental shift in our community development programs, that cannot also help but have an effect of uncertainty and again causes restlessness among the people in HUD.

I would like to think, though, Senator, that overall there is an understanding within the Department of what we are trying to do.

I think we have been going forward making our top appointments. At the present time I have only one appointment at the very top of the organization that has not as yet been made. That is out of either 11 or 12.

On the staffing of the area and regional offices, I was greeted with a number of vacancies when I arrived. We have been filling those vacancies, and I have made it a top priority to fill them, because, to obtain proper morale the people in the area and regional offices should know who is in charge.

Senator PROXMIRE. When you correct your remarks, will you tell us in as much detail as you can, without getting into exhaustive detail, but as much as you can when you respond, just what vacancies you have and how they compare with the number of people that you are authorized to have on your staff?

Mr. LYNN. When you say "staff," sir, how are you defining it?

Senator PROXMIRE. I mean what you have here at the national level, at the Washington level, and what you have out in the field, regional level too.

Mr. LYNN. I will do my best, sir.

[The Department submitted the following information for the record:]

TOTAL STAFF VACANCIES NATIONWIDE

For June 30, 1973, the Department was authorized 15,836 permanent full-time positions. Our actual permanent full-time employment on June 30, 1973, was 15,820.

The Department's work force, on June 30, 1973, was distributed as follows:

	Authorized permanent employment	Actual permanent employment
Headquarters	3,369	3,465
Regional offices	1,852	1,726
Area and insuring offices	10,615	10,629
Total	15,836	15,820

TOP STAFF POSITIONS VACANT NATIONWIDE

With the appointment of an Assistant Secretary for Administration, the Secretary's top staff will be complete. In the field, all 10 Regional Administrators are on-board, while only 15 of our 77 Area and Insuring Officer Director positions are vacant. We are actively recruiting to fill these 15 key jobs.

Senator PROXMIRE. Now, in the light of the moratorium, the budget cutbacks indicated in the Federal housing/community development programs, and the credit crunch, which I think is perhaps the most serious of all, the rise in interest rates and the recent rise that I am sure every indication is is going to go higher in mortgage rates, aren't you concerned about overall housing industry and activity and employment? What about our 1968 statement of goals? Where do we stand? Do you see the need for accelerating Federal assistance if we are to achieve these goals?

Mr. LYNN. I think I testified either in January or April—I believe in April—that one of the things that we are looking at in the study is whether or not we believe it is feasible to have a statement of goals, and, if it is feasible to have a statement of goals, whether those goals should remain as they were set in 1968 or should be revised either up or down.

As far as the current situation is concerned, I believe most economists are still at the point of predicting very strong starts for the balance of this year. And although the increase in interest rates has caused me to watch the situation more carefully at present I do not see any need for further action on our part.

This does not mean, however, that it isn't possible that in our study we will not be coming up with recommendations that could do some enhancing of purchasing power. I just don't know at the moment.

Senator PROXMIRE. I hope you will keep us posted on that. We would like to know and follow it as closely as we can.

I asked in June if you would do your best to see HUD complied with the law requiring a goals report by February 15. It indicated the importance to this committee. You asked, and I replied, that it usually comes in late, by June or July. You said you would do your best.

It appears that it will be even later than usual this year. Can you tell us when the report will be submitted?

Mr. LYNN. Just a minute, Mr. Chairman.

Mr. Chairman, I have been pushing HUD for—what is it now—a little over 5 months, starting about 1 week after I came in, to get that report out. I had assurances this morning that it will be on my desk probably this week, and I surely hope to get it to you next week.

I have issued a general statement in the Department that from here on out we are going to get reports of this kind up here on time one way or another.

I find it absolutely deplorable for this report to have taken as long as it has. I might add that I have one or two other reports that are in the same category. And it's a matter of getting hold of the situation within the Department.

I would like to think I have a much better hold on it now than I had 5½, 6 months ago, but all I can do is apologize for the delay. You should have it. You will have it.

Senator PROXMIRE. When you say we will have it, you say you think we may well be able to have it by the end of next week?

Mr. LYNN. Yes. One of the things, in fairness to my own staff, that I should say is that the report was complicated to some extent by the study, because we wanted to have the benefits of some of the work that had been done in the study in giving the report to you, and that did result in some inevitable delays. But I would very much have preferred to have gotten it to you earlier than this.

Senator PROXMIRE. Do you think community development funds should be provided the cities that refuse to provide adequate low- and moderate-income housing?

Mr. LYNN. Well, my problem with that, Mr. Chairman, is deciding what is adequate. When, in connection with the study, I start getting in more deeply into the question of what is adequate housing, I find myself into questions like: Where are the jobs going to be in that community for the low- and moderate-income people?

Senator PROXMIRE. Well, somebody has to make a judgment. As indicated so well by Senator Biden—and I think it is something that is apparent to all of us who have considered this—there just is not a popular move in our cities to provide housing for people with low incomes, especially if they have lots of children.

Elderly, yes. Anything else——

Mr. LYNN. There is no doubt that there is a terrific problem in this regard.

Senator PROXMIRE. And if we follow a policy of letting them do with these funds what they want to do, it seems to me it's unlikely they are going to come through with——

Mr. LYNN. Let me say that one of the threshold questions, Mr. Chairman, relates to the data with regard to how much is needed. When you start with the realization that the communities, just like us at HUD, have very little good data to go on, it becomes extremely difficult for anybody to make an appraisal as to how much is enough.

Now, on the question, Should they provide sufficient low- and moderate-income housing? the answer is "Yes." Of course they should. But I don't envy them their problem—the decisionmaking process at the present time.

Because one of the things that I found so frustrating in connection with the study is trying to get adequate data on how much is enough. It is an extremely difficult thing to do, and this does suggest that one of the things that we all ought to concentrate our attention on is better data for those communities to use and for us to use to appraise the situation.

Senator PROXMIRE. Well, so many of the Federal programs have been negative in this respect. Urban renewal is one of them—over the years at least. The highway program, of course, is another program that has devastated low-income housing without replacing it.

At present, the urban renewal law requires at least 65 percent of urban renewal funding to residential projects, but what happens to that requirement under the Better Communities Act?

Could all of these funds go to downtown or commercial projects if that is what the city fathers want? Couldn't we be once more back where we started with urban renewal? That was the removal of the poor.

Mr. LYNN. The obligation to provide relocation housing is affirmatively stated I believe in the Better Communities Act.

Senator PROXMIRE. It's a separate law I understand.

Mr. LYNN. No, there is specific reference to it in the Better Communities Act, that that obligation——

Senator PROXMIRE. I am not talking about relocation. I am talking about what the money is to be used for, what urban renewal money is to be used for.

Mr. LYNN. Mr. Chairman, the act does not require that a certain percentage of the funds should be used for low- and moderate-income housing. That is true. We look to our housing initiatives to come from the President's policy recommendations on September 7.

Senator PROXMIRE. So, absent the President's policy recommendations to the contrary, you could have all of it used for office buildings and luxury apartments and so forth?

The natural reaction on the part of mayors is they want to beautify their city. They want well-to-do people living in their city. For good reason.

Mr. LYNN. First of all, Mr. Chairman, commercial offices or new industrial development or business development may be one of the best things you can do for the needy in that community. After all, we face——

Senator PROXMIRE. If they don't have a place to live, it doesn't help much.

Mr. LYNN. We face a world today where job requirements are changing very drastically. We face a world today where the skill levels become increasingly higher and higher all the time. I think that communities that use this money should give substantial attention to job-creating enterprises in their city.

That doesn't mean that they should ignore the housing component. I don't believe they should. We have needs in the housing area.

But again it seems to me we should leave to the local government the judgmental decision as to which is the more important way of helping the community development for next year or the year thereafter and have plans as to how all these things fit together, housing, transportation, job development, crime control, some social services, and the like.

Senator PROXMIRE. My time is up.

Senator Brooke.

Senator BROOKE. Secretary Lynn, will the moratorium on subsidized housing commitments as such ever be lifted?

Mr. LYNN. I don't know, Senator.

Senator BROOKE. It is your intention to just let the subsidized housing programs fade away and say nothing about the moratorium?

Mr. LYNN. No. The reason I say I don't know is as I testified before to this committee, that one of our options is to put back all or part of the present programs that we have with administrative changes to alleviate the inequities and the waste that we found in them. That is why I have to say I don't know at this point.

I have got another—what is it?—45 or 50 days, something like that, before we will be in a position of giving an answer.

Senator BROOKE. I think great hardships have been worked as a result of this moratorium, and I am just wondering whether you intend to face the issue of the moratorium directly or just ignore it. Do you intend to lift the moratorium at some time in the future or will you just go ahead with proposals for legislation, ignoring the moratorium as such?

If, as you said, you find out that some of the programs were not working, you might make recommendations for improvement in the programs, but still not lift the moratorium. Is that an accurate statement?

Mr. LYNN. That is not accurate. I just don't know at this point, Senator, and I would say——

Senator BROOKE. When will you know?

Mr. LYNN. Pardon?

Senator BROOKE. When will you know?

Mr. LYNN. Well, I will know what my own views are very shortly now. I will not know what will happen in this regard until the President has made the decision.

Let me also put the moratorimu in perspective. If you take the difference between the level of starts or I should say the level of commitment approvals that were being handled by the Department before the suspension went into effect and the levels that we have under the suspension—and we do have levels of starts by reason of the applications that were in the pipeline and also by way of honoring commit-

ments—and then compare that with the need for the housing, there really isn't that large an impact.

What has been bothersome to me has been some hardship with regard to people who had done planning on housing, whether for the elderly or in other areas. These people have been frustrated in their intentions of using the existing programs. There has been some hardship in that regard, and I won't deny it.

But as far as hardship from the standpoint of meeting the total housing needs of this country within the relatively short period of time that we have and with the reduction in the numbers of approvals that resulted from the quality processing that Secretary Romney instituted to meet some of the problems that have been seen in the programs, there really hasn't been that much of an impact.

Senator BROOKE. Well, I disagree. But is this termination under the guise of a moratorium?

Mr. LYNN. I cannot say at this point, sir, because I do not know whether or not part of the policy recommendation will be to return to all or part of the existing programs. I just don't know.

Senator BROOKE. You are going to make this recommendation to the President and the President is to make the decision whether to lift the moratorium. Is that right?

Mr. LYNN. That's right.

Senator BROOKE. When do you intend to make your recommendations to the President?

Mr. LYNN. On this particular point?

Senator BROOKE. Yes.

Mr. LYNN. Sometime in the first week in August would be my guess.

Senator BROOKE. That is within 2 weeks?

Mr. LYNN. That's right, 2 to 3 weeks. And as I said earlier, I have a 2-foot pile of documents that I cut into substantially, but I am by no means at the bottom of them. And it seems to me if we are using the taxpayers' money to have developed all these reports, it would be a mistake for me to express recommendations without at least going through the more important of these documents.

Senator BROOKE. Are you prepared at this point to give us any insight as to what those recommendations might be?

Mr. LYNN. No, I am not, sir; unfortunately.

Senator BROOKE. Now, turning to the Better Communities Act. It seems to me that under your funding formula you might be penalizing those States that have worked hard and tried their best to improve the situation. For instance, my own State of Massachusetts has done very well, but under your Better Communities Act, we would be cut back by 1976.

Mr. LYNN. It depends what particular year you look at, Senator Brooke. The people that have levied objections have quite understandably picked the highest funding year they can find and say, "Look, I'm going to get less money."

But I can think of a large city in your State that has had funding levels over the last 5 years during at least 1 or 2 of these years that are less than what they would be getting even by the fifth year on entitlement basis determined by a needs formula.

Senator BROOKE. Well, you do want to keep the incentive program in the legislation, don't you?

Mr. LYNN. The incentive program?

Senator BROOKE. Yes. For example, one of the things that I thought was an incentive to local governments to spend community development money wisely and economically and which you apparently would terminate is the 10-percent matching fund requirement. It seems to me that if States or counties really want to participate in community development, they could take the responsibility of taxing to raise at least 10 percent of the needed money if the Federal Government puts up 90 percent.

Mr. LYNN. I think my statement speaks for itself on that point, Senator. I would only repeat that from my own knowledge of the HUD programs that 10-percent matching share has become nothing but a redtape exercise, that practically anything qualifies for it.

And what seems to me the much better way of getting the communities' attention to spending the money the right way is to put on their shoulders the advantages and the burdens at the same time of determining the priorities of expenditure.

This 10-percent matching requirement—or I should say the matching requirement—is one of the most redtape-ridden things that we have. And we really can't see that it has accomplished much in the actual operation of the categorical programs.

Senator BROOKE. And that applies equally to the application as well, because you have eliminated the application, haven't you?

Mr. LYNN. We do require a plan that details proposed expenditures, we have eliminated the necessity for an application insofar as it requires the detailing of what a community intends to do in particular categories, and we have eliminated the requirement of HUD second-guessing what the community says it wants to do.

Senator BROOKE. Suppose it doesn't want to, doesn't feel it should apply, doesn't even want to take the opportunity given to apply. You don't see any problems there at all—localities not wanting it?

Mr. LYNN. If they don't want to apply, they don't get funded.

Senator BROOKE. Well, under I think S. 1743, you eliminate the requirement for the application.

Mr. LYNN. No, we eliminate the need for addressing particular matters in the application or plan or whatever you want to call it. But the community must still go through a process, particularly the very important process of community review, before it can be funded. And the plan must also be reviewed by HUD from the standpoint of whether or not the things being proposed are within the statutory frame of reference.

Senator BROOKE. Doesn't this tie the community to HUD's apron strings?

Mr. LYNN. I don't believe so.

Senator BROOKE. You want to give them all the flexibility possible, don't you?

Mr. LYNN. Absolutely.

Senator BROOKE. Since the purpose of your bill is to localize planning, should your oversight be limited to the minimum necessary to assure that funds have been spent on projects which fall within the broad limits of community development?

Mr. LYNN. Yes, we do believe that it should be the minimum, Senator, but we think we have provided the right kind of minimum.

Senator BROOKE. In S. 1743 do you feel you have achieved that?

Mr. LYNN. Yes, we believe we do.

Senator BROOKE. S. 1743?

Mr. LYNN. Yes, sir.

Senator BROOKE. Mr. Chairman, I understand from Carl Coan our counsel for housing, that a new housing bill has been filed by Senator Byrd. Are we going to have hearings on that bill so that we can have the Secretary appear and give us the information we so sorely need?

Senator PROXMIRE. Well, there are several options. One option is he can come back prior to the time he submits his proposal or he can wait until he submits his own proposal and then have him come back.

Senator BROOKE. That will be September 7?

Senator PROXMIRE. Yes. We could have a week of hearings or so after that before we act on the bill. So there will be time then. And it might be a good time. The Secretary can come in and comment on all the hearings we have had, and, of course, these things change from time to time.

Senator BROOKE. Mr. Chairman, I am very much concerned that, as you stated earlier, we may not have a housing bill in 1973. If the Secretary's proposal is submitted on September 7 and we are talking about adjourning sine die on the 15th of October, that is precious little time to have hearings on important legislation such as this, to get it past the committee, past the Senate, past the conference committee, and to the President for his signature.

Senator PROXMIRE. You are absolutely right. But, you see, the options are so tough because we do have that 5-week recess beginning on August 3, and I think it would be most unlikely the administration would come in with their program before August 3.

Whether we could have hearings during the recess is a possibility, but it is very difficult to do. So I think we are in a tough time bind.

Senator BROOKE. What concerns me more is what is going to happen in the interim period. Suppose we don't have a housing bill in 1973. Then what happens? Is HUD going to spend the money that we have authorized and appropriated?

Mr. LYNN. As I said earlier, I have consultations pending with OMB for the release of additional funding to honor the remaining commitments that have not, as yet, been given the green light. Beyond that I have no plans for spending funds.

Senator PROXMIRE. Senator Brooke has put his finger on why we ought to end the moratorium.

Senator BROOKE. No question about it. It seems to me you have got to do it.

Mr. LYNN. Senator, my problem is that you are advocating, for the benefit of maybe another 50,000 or 100,000 units, reinstituting a program which, in my judgment and in the judgment of the administration, is a program that is fraught with difficulty and waste and inequity. I'm saying that, looking at the total needs of this country for low- and moderate-income housing and looking also at the generally good health of housing starts in the United States, that does not appear to me to be the right course to follow.

Senator BROOKE. When are you going to give that information to us? You're making this as a statement.

Mr. LYNN. I said earlier, Senator, I would expect to have the package setting forth that full analysis at the time the President makes his recommendations to the Congress.

Senator PROXMIRE. If the Senator would yield, the Library of Congress study, which is a comprehensive study, doesn't indicate that it is fraught with difficulty. We haven't gotten any hard evidence. We have allegations and rhetoric and you're a very articulate and persuasive man, Secretary Lynn, but we haven't had any hard, convincing evidence in my view that these programs are bad.

As a matter of fact, those who have been most interested on the outside have made a very strong case that these programs are more workable than the conventional programs that are being continued.

Mr. LYNN. Mr. Chairman, I don't believe there is any unanimity in the views of the people outside the Government in this regard at all. We can match documents. You can bring some in where people say these are the most wonderful things that ever happened to mankind, and I can show you things running all the way from newspaper articles to magazine articles to statements by experts that these programs are indeed a disaster and we ought to fess up to it at this point in time.

Senator BROOKE. You may be right, Mr. Secretary, but you are asking us to accept your statement without any supporting evidence.

Mr. LYNN. Well, I gave some indications of the areas that I thought showed that the programs were not working the way they should when I testified in April. But as I say to you, I think the detailed analysis could be given to you in one of two ways. I could have put the study on hold completely and, by putting full manpower on this first, done the demonstration of how the programs aren't good. Alternatively, I could have it go forward in tandem with the housing study and show the comparisons between the way our present programs worked and the way our alternatives would work. We chose the latter approach.

Senator BROOKE. You didn't have a preconceived position or anything of that nature? You had an open mind? You told me that when you came before us in January—and that you were going to have this study made and as a result of the study you would report back to the Congress, and we are waiting for that report.

So I assume that you don't have any preconceived notions about this and that you are making your judgments on the basis of the evidence.

Mr. LYNN. We have to make a distinction, Senator. I believe that I testified on prior occasions that the programs as they were actually in operation were wasteful and inequitable. I further said, however—you are absolutely right—that I have no preconceived notions whatever as to whether or not the statutory provisions are the best approach. And that still remains true.

In other words, it may be when we have studied the whole thing that the existing statutory authorities, with a different administrative approach and with different guidelines, are still the answer. I just don't know at this point in time. That is why I am reading all these materials that I have stacked up.

Senator BROOKE. Now, Mr. Secretary, I know that you have some problems, as has been stated in press reports, with some of the public housing amendments to which I referred. They have given some housing authorities problems and some tenants problems around the country.

Now, Senator Proxmire and I serve not only on the authorizing committee for HUD, but we also serve on the HUD appropriations sub-

committee. We have just finished with an appropriations bill, and we have written very strong language regarding appropriation for public housing operating subsidies into that bill.

We were very much disturbed that HUD has not been spending the money that Congress has authorized and appropriated for operating subsidies. We sort of chastised HUD, I believe, for not spending that money. We have tried to write into the bill language which would insure that HUD would spend the $315 million appropriated for the purposes of the so-called Brooke 1, 2 and 3 amendments, for operating expenses and subsidies, so that many of the housing authorities across the country that are in dire straits at the present time would not go bankrupt. I have serious questions as to whether they can go into bankruptcy, at any rate. But that the quality of living in these public housing projects would be improved if the money appropriated by the Congress is spent by HUD.

Now, what do you intend to do about that? Do you intend to spend this money, if the Congress so dictates, or do you still have serious reservations about it? If you still have reservations, I urge you to give us your proposals so that we can examine them ourselves to work something out with you. I have told you that from the time first you came to my office in December or January, I believe, before you were confirmed. What are your thoughts about that?

Mr. LYNN. First of all, Senator, we have spent all of the money that was given to us for operating subsidies for public housing. The last $14 million went out on it just before the end of the fiscal year.

Second, I am very familiar with the mandatory language of the appropriation bill emanating from the Senate side on the operating subsidies. I am as familiar with that as I am with the mandate to spend all of the rest of the money that I can possibly spend on all of the housing programs and all of the community development programs.

Needless to say, it is obvious from my testimony earlier today that I do not concur with the judgment as expressed by the Senate in that appropriations bill, and I must say that I will vigorously resist that language.

Coming back specifically to the operating subsidy situation, we are addressing ourselves to that problem as well as to the whole problem of financial responsibility of the public housing authorities.

As I believe you and I have discussed on occasion, we have a dilemma in this regard. We all most desperately want to help our lowest income people achieve good housing. On the other hand, we also want financial responsibility of the public housing authorities. The answer here lies in doing our best to satisfy both of those objectives.

And it is with those dual thrusts that we are proceeding with our housing study in this area.

We asked this year for a funding level for operating subsidies that was the same as the funding level sought last year. I say "same" because there was a one-shot retroactive feature in the bill last year——

Senator BROOKE. I think you had $280 million if I remember.

Mr. LYNN. I think that's right.

Senator BROOKE. But we sought $315 million last year.

Mr. LYNN. I'm not certain of that at all, sir.

Senator PROXMIRE. I understand it is $350 million.

Mr. LYNN. Was it $350 million?

Senator BROOKE. $350 million, yes.

Mr. LYNN. But there was a $90 million one-shot sum in that for a retroactive feature. In other words, by the time the appropriation was passed we had passed the period of funding that we wanted to take care of it. I mean the annual funding level reflected by the appropriation was $280 million, and that is what we sought in fiscal year 1974.

I must look at all of this as stopgap funding because, as I say, we are taking a look at the overall situation on how to help the situation of existing public housing in our study.

Senator BROOKE. Well, my time has expired, but I take it that we are in disagreement, to say the least, on this funding for public housing. Again I say to you, if we are in disagreement and you have some supporting evidence as to why it should not be done the way we have mandated in the appropriations bill, why don't you come to the Congress with it? Why don't you make proposals? Why don't you give us some evidence, some documentation, that would support your position? We haven't seen it as yet. You might find some flexibility in the Congress, but we haven't received any information from you.

Mr. LYNN. Senator, it is a question of whether we come forward piecemeal. Many of these issues are interrelated, after all. They are interrelated even within the statute. The limitations with respect to income, and so on, for 235 and 236, are related to the income limitations on public housing.

It seemed to us that the time had come for us not to consider all of these things together instead of considering them piecemeal. And that's why I have asked to be able to have until September 7 to come forward with our recommendations and our analysis supporting those recommendations.

Senator BROOKE. As you are aware, we have a crisis in public housing, and if you are talking about not spending at least up to the funding level that we have authorized and appropriated, I think we are in for some really difficult times in fiscal 1974.

Mr. LYNN. We had asked for an appropriation level, Senator, effectively the same as we had last year and we have every intention of spending it.

It appears our disagreement is twofold. Or I shouldn't say "twofold," because it's really only one. And that is, what is the appropriate level for this interim period of time? We said it is $280 million, and you folks in the Senate said it should be $315 million. I would hope that would be looked upon as an honest disagreement.

Senator BROOKE. We don't want to split the difference with you. I can tell you that. That is not your intention, is it?

Mr. LYNN. No, sir. That is not my intention.

Senator PROXMIRE. Mr. Secretary, the hour is very late. I just have one other question or two questions I want to ask quickly, and then we will have to adjourn.

You say in your statement, and I quote: "I question the desirability of the basic idea of holding communities harmless forever."

Now, this seems to me a misreading of the Senate bill. The bill is a 3-year authority to allocate dollars and specifically requires the Sec-

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retary to recommend changes after 1 year's experience. That is 306 (i). Section 306(h) also gives him authority to adjust the calculation if needed. The real question is how we keep city effort going.

Any fixed formula I think you would agree has shortcomings and requires a measure of judgment.

Mr. LYNN. I agree with you that any fixed formula is not perfect. But what was the intention of the Senate in its 3-year bill as to what happens at the end of 3 years? The pressures by the cities that are the "haves" would be just as great at the end of 3 years as they are now. The only difference would be any city that got something more in the third year than it had in the first would then be added to the group that was saying, "For Pete's sake, don't reduce my funding."

It seems to me we should face up to the fundamental issue, which is whether we should distribute this money on the basis of needs or, alternatively, whether distribution should be based on the highest average funding that a community had in the past.

Senator PROXMIRE. I agree with much of what you say.

Mr. LYNN. I opt for the formula.

Senator PROXMIRE. I don't think we necessarily have to give in on the priorities. It is a 3-year bill. It is not a permanent direction.

Mr. LYNN. I would think, Mr. Chairman, that we would want a 5-year bill, because one of the things that should be taken into account by a community is what its longer range plans are, and a 3-year bill is not nearly as satisfactory in that regard as a 5-year bill.

We do not want the priorities to be distorted by their worry about whether or not that statute is going to end at the end of the second year or so or third year.

Senator PROXMIRE. I don't want to be unfair to you, Mr. Secretary, but, finally, as you leave. I did ask you in the course of this an involved question. You made a good response to part of the question. You may have ignored the other part for whatever reason. I don't know. Maybe it just slipped your mind.

I quoted the assertion that you were the "Howard Phillips" of the housing agency, that you were a perfect candidate to preside over the final dismantling of Great Society's housing programs. And I didn't get a kind of firm, flat, emphatic denial that I expected.

That doesn't mean—or does it mean that that's what you are interested in doing?

Mr. LYNN. If I were interested in doing that, Mr. Chairman, I wouldn't be here pushing so hard for what I believe to be the right approach for community development, which is the Better Communities Act. I would not be spending 13 to 14 hours a day, most Saturdays, and 4 to 5 hours on Sunday working my way through the housing study and coming up with housing recommendations for better programs than we presently have.

I am in HUD to try to do a good job by making its mission a meaningful one and carrying out that mission. I'm not there to dismantle HUD. Believe me.

Senator PROXMIRE. I appreciate that.

Mr. LYNN. Is that emphatic enough, Mr. Chairman?

Senator PROXMIRE. You know, I think we can only judge that—we will have to await your recommendations on the housing program.

Mr. LYNN. That is a fair comment, Mr. Chairman.

Mr. HYDE. Mr. Chairman, may I go back to your previous question and your statement concerning the "hold harmless" and the fact that this was only a 3-year authorization?

I call attention to the committee report on the bill submitted in 1971 which is identical to this one. The committee report does indicate—I won't read it but it's on page 43—the intention to make that a permanent fixture of the bill. And I think that is an issue that really must be addressed by this committee and not left to the fact that this is only a 3-year authorization.

Senator PROXMIRE. I pressed that issue at the suggestion of the chairman, who can't be here today. He is very, very interested in that. Frankly, that had escaped my attention.

But I think their point is that this is a 3-year authorization, it's not permanent, and that under those circumstances it is not a forever provision.

Mr. HYDE. I would think in light of history of the last bill that would have to be made abundantly clear to avoid the pressures the Secretary indicated earlier.

Mr. LYNN. You have a little dilemma. We believe the bill should be a 5-year bill to allow proper priority assessing by the communities, and if you go to 5 years you most definitely have to face this issue.

Senator PROXMIRE. I would like to announce that the committee prints are available on hearings on oversight, the Washington hearing, the Chicago hearing, the Toledo hearing, and following the committee oversight hearings, as I referred to earlier in the hearing, the Library of Congress has summarized the results. And the attached committee reports are available for the public. We have a substantial body of material here.

Thank you very, very much, Mr. Secretary and Mr. Hyde. Very helpful and intelligent testimony.

The committee will stand in recess until 10 o'clock tomorrow morning when we will reconvene in this room.

Mr. LYNN. Thank you, Mr. Chairman.

Mr. HYDE. Thank you, Mr. Chairman.

[Whereupon, at 12:57 p.m., the subcommittee recessed, to reconvene at 10 a.m., Tuesday, July 17, 1973.]

[Following are answers to questions raised by Senator Proxmire and Senator Cranston. The report referred to in question No. 1 from Senator Proxmire is retained in the committee files. These are followed by letters and statements concerning the issues discussed on this day:]

QUESTIONS FROM SENATOR PROXMIRE

1. Have you prepared a report on your "Planned Variations" experience? Would you submit such a report to the Committee?

2. As I read your proposal for special revenue sharing, it does *not* contain any provision in the formula for tax effort. The point is that a few states, like my own, make very very heavy tax contributions—heavy state income tax, heavy property taxes, a corporate income tax, sales taxes, and the like. So we tax ourselves very heavily to pay for a high quality of state services.

Some other states do not. In fact the Mayor of Newark—who has some of the worst problems of any city in the country—has had great difficulty getting the state as a whole to provide funds for his city. Yet New Jersey, as a state, makes a relatively small effort—and there are other states similarly situation (sic).

Now without a formula which includes tax effort, the people of Wisconsin pay twice. They pay first for the very big effort for themselves. And they pay second for the lack of effort—or relative lack of effort of others. That does not seem to me to be fair.

Have you left out "tax effort" by accident or by design? Why isn't it included?

3. Last Friday I introduced legislation to provide for direct Treasury financing of the 235 and 236 program along the lines recommended by the Comptroller General in his testimony before the JEC last December. According to the Comptroller General, the Federal government would save $2 billion over the next five years by this method. The Library of Congress estimates the savings at $4 billion. Whatever the figure, can you give us your thoughts on the concept? Wouldn't it make more sense and save the tax-payers money if we had a direct financing alternative to the existing financing methods?

4. If the President signs H.J. Res. 512 into law including the provision ending the moratorium, or if such a provision becomes law by overriding a Presidential veto, will you faithfully carry out the provisions of the law and begin processing and approving subsidized housing applications?

5. I have an amendment to provide that subsidized houing—Section 235 and 236 shall be financed by borrowing from the Treasury instead of from private sources. This is very important.

First, we must find ways to cut the costs of subsidized housing. 50 to 60 percent of the people in this country cannot now afford to buy a $27,500 house.

Second, borrowing by the Treasury can be done for from 1.5 to 2 interest rate percentage points lower than from private sources.

The Douglas Commission advocated this and recommended it in 1968.

The Comptroller General, Mr. Staats, recommended it last December and said that at the average interest rate of Treasury borrowings it would save from $4 to $5 billion in carrying out the housing goals.

The Joint Economic Committee's Subcommittee on Priorities recommended it in January.

I have an amendment to carry it out. I have submitted it in connection with this bill.

Has your task force gone into this issue and why wouldn't you look very closely at a proposal which would save you $4 to $5 billion?

Staff note to Proxmire: (He (Lynn) may raise the issue that this would be a loss for the private market. The answer is that the total amount of borrow would be the same. It would merely substitute Treasury borrowing for private borrowing, but the funds would have to come from the private economy and the total would be the same).

6. In Baltimore, Chicago, and even Washington, D.C., the highway builders have destroyed thousands of housing units.

By definition these are units for the poor. The well to do have enough political clout that the superhighways, in general, do not go through their back yards.

The Douglas Commission found that through 1968, more housing had been destroyed by governments than had been built by the Federal and state housing programs. The destruction came from highways, urban renewal, code enforcement, and the quivalent demolition provision of the early public housing act. In fact, quite a few more units were destroyed than built.

I have an amendment which provides that the Highway Trust fund would pay to you the cost of a 3 bedroom public housing unit for every housing unit they destroyed in building roads.

What do you think of such a proposal?

7. For years very little public housing of 3 bedrooms or more has been built.

First, almost half the public housing in recent years has been housing for the elderly. That is 1 bedroom or efficiency apartments.

Second, communities don't want a bunch of kids when they build public housing. So they build two bedroom units for much of the remainder. This means they don't have to build a lot of new schools.

Third, HUD has traditionally had a ceiling amount per unit—set by the Secretary—at relatively low amounts—too low to build a great deal of 3 bedroom or more units.

As a consequence very little housing for the poor family has taken place. And you must have a three bedroom unit if you have kids of more than one sex over the age of 4 or 5.

I have an amendment which proposes that at least 20% of all new public housing be 3 bedrooms or larger in the future. It may be that studies of the poor and of those who need public housing would show that this amount should be greater, first to provide for the need and second to make up for some of the past lapses.

What comment do you have about this?

8. As you know, it costs far more money to build high rise buildings than low rise buildings. The high rise buildings are justified when land costs are so high that they become more economical because of the land costs.

We also know that high rise construction for public housing has certain other weaknesses. It crowds together in one spot all the problems of the poor. It often means there is insufficient light and play space. It's not a good place to raise kids.

Because of this, public housing is now more and more scattered site housing and leased housing, and the huge "projects" are largely a thing of the past, or they should be a thing of the past.

But for the elderly, we still build high rise in almost every situation. In small town after small town—5,000, 10,000, 50,000 throughout the country where there is not another high rise building, except for the local grain elevators, housing for the elderly is high rise housing.

That seems to me to be very expensive. It costs more. Here land values are low. And it ought to be better housing to provide garden type apartments or low rise dwelling units.

I have a bill which would forbid high rise for the elderly projects in cities of less than 500,000, and in cities over that population only on a showing that the high rise was less expensive because of land costs.

What comments do you have about that, Mr. Secretary?

9. *Revenue Sharing*

You have a formula based on population, overcrowding, and poverty, (counted twice).

It takes a great deal less money to live in a rural area than in a big central city.

I do not want to downgrade rural poverty—it is more extensive than urban poverty, I believe.

But does your formula adequately take account of the difference between rural and urban poverty levels? Doesn't it cost more to live in a big city than in most rural areas, and shouldn't the formula take account of this?

Answers to Questions From Senator Proxmire

1. Yes, the Office of Community Development, Evaluation Division has published a report on the first years experience with "Planned Variations." This report is enclosed. A further report covering the second year is now in preparation, and will be furnished to the Committee upon its completion.

2. Tax effort was left out of the formula by design. This factor has been considered appropriate for general revenue sharing where funds are not being used to meet needs in specific areas of functional need, such as community development, law enforcement or transportation.

However, taxes are not imposed specifically for community development purposes, with the result that State and local overall effort in taxation does not necessarily result in proportionate expenditures or effort in dealing with the problems of community development with which the Better Communities Act is concerned. A city with a relatively high tax effort, for example, might be doing relatively little to meet community development needs. A similar problem exists as to State taxation, since States that tax heavily in relation to ability have not necessarily ploughed many of those tax dollars into community development activities of the kind to be undertaken under the Act. Moreover, the Better Communities Act would replace seven categorical programs. Local tax effort has never been considered in connection with these programs except in the most indirect way of local match requirements—requirements that have eroded to the point of negligible impact.

3, 5, 6, 7 and 8. (These questions all request the Department's views on a number of bills or proposals which would: provide for direct Treasury, rather than private, financing of the section 235 and 236 programs; require payments to HUD (to be used for public housing) from the Highway Trust Fund for housing units destroyed by highway construction; require that 20 percent of all new public housing be 3 bedrooms or larger and limit the use of high rise construction for public housing for the elderly.)

As you know, the Administration is now nearing the completion of a broad study of our housing programs and policies, which of course includes an evaluation of the section 235, section 236 and public housing programs.

Following completion of this study, the President will submit his housing recommendations to the Congress early in September. We cannot say at this point to what extent the President's recommendations will specifically deal with or respond to particular legislative suggestions. However, the study will in any case provide a necessary context for evaluation of the proopsals contained in these questions, and we must accordingly defer comment on them until the study is completed and the President's recommendations submitted to the Congress.

4. That is an "iffy" question upon which I prefer not to speculate except to say generally that of course the Department will do what it is legally bound to do.

5. See answer to question 3 above.

6. See answer to question 3 above.

7. See answer to question 3 above.

8. See answer to question 3 above.

9. The Better Communities Act does not spell out a specific poverty level but provides that the level will be fixed according to a definition provided by the Office of Management and Budget. The question suggests that two definitions should be used—one for rural and one for urban poverty.

Under the Better Communities Act, funds are distributed by formula among *metropolitan cities* and *urban counties*. Also funds are distributed among States on basis of the populations and other characteristics of their *metropolitan areas*. Because all of these formulae deal with characteristics of urban areas, there is no need to distinguish between urban and rural poverty levels. Cities, for example, lose nothing as against lower income rural areas because they are not being measured against those areas, but against other cities and urban counties; similarily, States with large urban populations do not lose as against States with large relatively lower income rural areas, since the States compete under the formula only on the basis of their metropolitan area populations.

Questions from Senator Cranston

The termination of the GNMA Tandem Plan for the unsubsidized programs has caused a great deal of concern in my State and, I am sure, in others. Some sponsors, for example, had firm commitments at the time GNMA said it had closed its doors.

1. Why has HUD terminated the GNMA plan for the unsubsidized programs?

2. Will GNMA honor those firm commitments made around June 27–28?

3. Will the Tandem Plan for the subsidized programs cover all those applications in the pipeline?

Answers to Senator Cranston's Questions

1. The Secretary has increased the maximum allowable interest rate permitted for mortgages insured by FHA to 8½ percent. HUD's Tandem Plan for FHA insured housing (unsubsidized) will remain *suspended* (except for multifamily housing mortgages covered by FHA commitments issued prior to June 30, see 2. below) because the Plan will not be needed with the reduction in discounts resulting from the higher interest rate.

2. GNMA will honor all commitments made by it for the purchase of mortgages prior to the close of business June 28. It is anticipated, however, that most mortgage lenders with commitments covering unsubsidized housing mortgages will have their FHA commitments increased to the new interest rate thereby avoiding the need for Tandem Plan participation. All Tandem Plans were suspended, effective June 28, 1973, when funding authorizations were exhausted. Since that time, in July and August, the Tandem Plans for Programs 16 (section 235(j)), 17 (section 221(d)(3)), 236, and rent supplements, and 18 (section 235(i)) were reinstated when funding authorizations were approved. Effective on August 27, the Tandem Plan for Program 21 (unsubsidized multifamily housing mortgages) was also reinstated for mortgages covered by FHA commitments issued prior to June 30.

3. In order to avoid inequity in connection with the increase in the interest rate, Tandem Plan assistance will continue as to all HUD subsidized housing in process which would not be feasible at the higher interest rate and requires Tandem Plan assistance to remain economically viable. A letter is required from the local HUD office to GNMA documenting the finding of infeasibility at the higher rate.

August 27, 1973

Statement of Honorable Jerome A. Ambro, Supervisor of the Town of Huntington, New York

As the elected chief executive officer of the Town of Huntington, New York; a suburban municipality of over 210,000 people, it has come to my attention that under the present distribution formula, the Better Communities Act (S. 1743) would seriously deprive large segments of the urban population in the country who might otherwise have benefited from this legislation. There are many large municipalities, with populations over 50,000, which would be excluded from community development revenue sharing simply because they are categorized as "towns." The attached list (Enclosure #1) gives some idea of the number of people across the nation who would be affected by this bill. These general purpose local governments, unless they are eligible for "hold harmless" funds, would clearly be dropped from any revenue sharing in the area of community development. Yet, these municipalities share the same burdens and responsibilities as "cities," as illustrated in the attached material (Enclosure #2).

As now written, the Better Communities Act provides for a $2.3 billion, five-year program of grants only to metropolitan cities (defined as any city having 50,000 or more people) and urban counties exceeding 200,000 population. There is no provision for money to flow directly to our unit of local government--the town--no matter

what its size and location. It should be added that the bill does contain a so-called "hold harmless" provision which allots funds to all local governments if they have participated in the specific programs to be enveloped by the Better Communities Act in the past. However, while the "hold harmless" amount for the first two years would be equal to the average of funds received from 1968 to 1972 under these programs, it would be reduced significantly the next two years, and totally eliminated after that. Towns that do manage to benefit under this provision will then be completely excluded again.

We have counted more than 60 towns and townships across the nation with a population of 50,000 or more that would be neglected by this bill. Most of these local governments are urbanized. They have a combined population of more than 7 million people, which is larger than 42 of the 50 states. Towns and townships are usually closer to the problems of their citizens and can be more responsive than larger units of governments.

As an example of this form of government, the Town of Huntington, New York, is perhaps typical. It is one of the ten townships which comprises Suffolk County - occupying the northwestern most portion of Suffolk County. It is a sprawling group of communities covering approximately one hundred square miles. In this aspect, it is as large as the borough of Brooklyn in the City of New York. Within this area live over 210,000 people.

Huntington has an Urban Renewal project presently under construction.

Within it is contained a modest public housing development. When the neighborhood redevelopment is completed, its combination of townhouses, apartments, promenades, green spaces, and business establishments may well serve as a model for suburban communities throughout the nation. One example of the inequitable distribution in the legislation as proposed occurs in this particular area of housing. In the State of New York, counties are pre-empted from involving themselves with urban renewal and housing. Yet, the Better Communities Act would provide counties in New York with funds in these areas from which they are legally barred while those local governments who are charged with urban renewal and housing responsibilities would be excluded.

The Town of Huntington in 1964, established Community Development for Youth, a private, non-profit agency dedicated to the prevention and control of juvenile delinquency. It is funded by the New York State Division for Youth as well as by the Town. In July, 1968, the Town established the first Youth Board in Suffolk County. The County has just recently established a Youth Board of its own.

In May of 1969, the Town of Huntington became the first town in the State of New York to receive funds for the purchase of new buses under the State's $2.5 billion bond issue. In addition, it operates a system of buses on a regular schedule to all of its municipal beaches. These, plus the new vehicles, which will be used to initiate service in an area that is currently devoid of public transportation, are for the purpose of giving citizens - particularly young people, senior citizens,

the handicapped, and the poor - greater freedom to take advantage of the many recreational, cultural, and commercial activities that exist within the Town.

Yet, the Town of Huntington is not demographically unique in its geographical area. It is only the seventh largest of the thirteen towns on Long Island. The Federal Government recognized the special character of the entire Long Island area by separating it from the New York City SMSA creating a separate one composed of just Nassau and Suffolk Counties. But, the population, well over two and a half million people, is faced with the prospect of being cut off from vitally-needed community development revenue sharing at a time when the problem those funds could help solve are multiplying. In this respect, the towns of Nassau and Suffolk are representative of large suburban townships across the nation.

The Town form of government has been the victim of Federal neglect before, but there is little that can be done to rectify the past. However, the proposed legislation is a prime example of Washington's ignorance of the needs of the large suburban towns at present. It is incumbent upon those of us who care about the vitality of local government in America to bring attention to bear on the glaring deficiencies of this bill. Not only does the proposed legislation cover areas of importance to our citizens, but it also is the forerunner of a new era in Federal grants in aid. If we are bypassed now, we can expect only further neglect in the future. It should be remembered that the Town form of government, in most cases, pre-

dates the Federal and State governments. It was the means by which our ancestors fostered democracy in this nation. Today, that form of government is beset by many problems which could be fought with the kind of funds proposed by the "Better Communities Act." We are determined not to see this basic unit of government wither through neglect and indifference.

Enclosure #1

TOWNS (OR TOWNSHIPS) OVER 50,000

STATE	TOWN	POPULATION
Connecticut	East Hartford	57,583
	Fairfield	56,487
	Greenwich	59,755

STATE	TOWNSHIPS	POPULATION
Illinois	Bremen	93,906
	Cicero	67,058
	Elk Grove	79,642
	Leyden	99,793
	Lyons	100,898
	Moine	140,194
	New Trier	65,365
	Niles	111,197
	Northfield	65,557
	Palatino	54,817
	Proviso	172,761
	Schoumberg	50,541
	Thornton	187,863
	Wheeling	119,218
	Worth	155,834
	Addison	72,280
	Downers Grove	92,899
	York	173,724
	Decatur	77,546
	Rockford	191,671

STATE	TOWNSHIPS	POPULATION
Indiana	Wayne	149,516
	Center	87,469

STATE	TOWN	POPULATION
Maryland	Rockville	81,908
	Bethesda	96,912
	Berwyn	-
	Oxon Hill	55,965
	Spauldings	106,350

STATE	TOWN	POPULATION
Massachusetts	Arlington	53,534
	Brookline	58,886

STATE	TOWNSHIPS	POPULATION
Michigan	Redford	71,901

STATE	TOWNSHIPS	POPULATION
Missouri	Bonhomme	113,080
	Clayton	57,602
	Creve Coeur	60,300
	Gravois	62,535
	St. Ferdinand	72,022
	Midland	55,790

STATE	TOWNSHIPS	POPULATION
New Jersey	Cherry Hill	64,395
	North Bergen	47,751
	Edison	67,120
	Woodbridge	98,944
	Middletown	54,623

STATE	TOWN	POPULATION
New York	Colonie	69,147
	Union	64,490
	Cheektowoga	113,844
	Irondequoit	63,675
	Hempstead	801,110
	North Hempstead	234,984
	Oyster Bay	333,089
	Clarkstown	61,653
	Orangetown	53,533
	Ramapo	76,702
	Babylon	203,520
	Brookhaven	243,915
	Huntington	200,571
	Islip	278,399
	Smithtown	114,004
	Greenburgh	85,746

STATE	TOWNSHIPS	POPULATION
North Carolina	Asheville	74,174
	Jacksonville	55,737

STATE	TOWNSHIPS	POPULATION
Pennsylvania	Lower Merion	63,392

[From the Long Island Press, Apr. 1, 1970]

SUFFOLK NEEDS 66,000 RENTAL UNITS: PLANNER

Huntington town has a "critical need" for 1,000 low- and low-middle-income housing units for local families and has zoning barriers which probably could be upset as unconstitutional Lee E. Koppelman, executive director of the Huntington Committee on Human Relations and the town NAACP chapter.

At all income levels Suffolk will need 66,000 rental units in the next 15 years, the planner forecast, and at least 6,600 of them should be in Huntington.

If the town does not act fast to open the way for housing by rezoning about 5 per cent of its available land for multiple dwelling "it will be done by an outside agency," Koppelman warned.

Koppelman said the amount of multiple housing he recommends is too small to change the character of the town, which he said also is important since those selected by the state.

As an example of state selection, he said, the much needed Suffolk State School for the Retarded in Dix Hills is "in the worst possible location" from the standpoint of the community and labor market.

Koppelman said the State Urban Development Corporation, which has "almost unlimited powers," is in continuing negotiation with the Citizens Housing Development Corporation of Nassau and Suffolk counties to select from four proposals the right housing project for vacant state acreage at Pilgrim State Hospital in Brentwood.

Koppelman urged Huntington residents to try to avoid having outside agencies step into the local housing situation by putting pressure on the town board to create a responsive official climate for needed housing. He said he does not recommend public housing or high-rise buildings which are so tall "a mother on the 23rd floor" loses supervision of her children.

School boards are the greatest opponents of multiple dwelling, the planner said, adding they are incorrect when they assume apartments will add to the school census. Most apartments do not accommodate large families, Koppelman said.

Koppelman said he had seen a "family living in a large packing box, with no heat" in Amityville. He said the slums of Suffolk add to the public expense by creating sickness and crime. Public Welfare costs are increased $1.5 million in Suffolk, and double that in Nassau, for motel living—money which could be saved if there was enough housing, including subsidized housing, he said.

Koppelman expressed hope the state soon will subsidize individual family rents but conceded it can't be done until housing is available. He charged Suffolk legislators "have already introduced bills in Albany to try to put shackles on the Housing Development Corp."

Huntington has been a leader in having a comprehensive plan and in Urban Renewal, Koppelman said, and "is the only town where I have seen town officials in the audience when I speak."

[From the Suffolk Sun, editorial, Dec. 18, 1968]

NOW IT'S OFFICIAL: WE'RE IN TROUBLE

The report of the President's Task Force or Suburban Problems is not pleasant reading for the year-end holiday season. It finds that communities ringing urban centers are in the crisis stage.

Our problems range from soaring taxes and poor public transportation to inadequate housing for the poor, the aged, and minorities and rising crime rates. In terms of social disorder, you name it; we have it, and now it is all there in black and white in an official document.

The report makes it clear that life in suburbia is not as pleasant as real estate advertisements in the Sunday papers would have us believe. We are growing too fast for our britches, are polluting our environment, and are fighting a rear guard action to keep a social white noose around black urban slums.

The task force conclusion should come as no surprise to Long Islanders. Suffolk County Executive H. Lee Dennison and Nassau County Executive Eugene Nickerson have been warning us about the growing crisis since the first day they took office. Because they have not represented political majorities in the two counties, their recommendations for reform have been adopted slowly, if at all.

Mr. Nickerson argues that town and village governments have not moved to

correct political and social wrongs. Oyster Bay Town Supervisor Michael Petito agrees. "That all is not well in suburbia is an absolutely accurate statement," he said the other day.

Mr. Dennison's analysis of the situation is worth nothing. He blames our troubles on speculative building, lack of planning, failures in such public housekeeping as sewage disposal, corruption in public office, and failure in human relations.

We might add that of all the reasons for suburban decay, the long-time, one-party political control of local affairs must rank on top of the list. This has led to official corruption and civic inaction. Until real political balance is achieved, we will continue to slide downhill.

[From Newsday, Aug. 13, 1970]

SUBURBAN CRIME RISES

The Federal Bureau of Investgation reported yesterday that the nation's suburban areas showed an above-average rise in the volume of serious crime last year—up 13.8 per cent from the previous year.

In Nassau County, however, crime increased by 10.8 per cent over the previous year. In Suffolk County, the rate of increase was 11.5 per cent. The national increase was 12 per cent.

In the New York metropolitan area, including the city, Long Island, and Rockland and Westchester Counties, the crime rate per 100,000 inhabitants was 4,731.5, nearly twice the national rate of 2,471.1. There were 555,001 crimes reported in the area, including 1,105 cases of murder or non-negligent manslaughter and 2,277 forcible rapes among 95,873 violent crimes.

The FBI's uniform crime report is based on serious crimes—murder, non-negligent manslaughter, rape, robbery, felonious assault, burglary, larceny and automobile theft—reported to police. There is no way of determining the total number actually committed.

The FBI report, issued in Washington, said that serious crime rose by 148 per cent in the 1960s while the U.S. population increased only 13 per cent. But Attorney General Mitchell said that the "rate of increase slowed down substantially in 1969," President Nixon's first year in office. "In 1969, the number of serious crimes in the United States increased by 12 per cent over 1968, as compared to a 17 per cent increase in 1968 over 1969," Mitchell said in a statement accompanying the FBI report.

The rate of all serious crimes committed in Nassau County last year was 1,832.2 per 100,000 inhabitants, compared with the national rate of 2,471.1 and the New York metropolitan rate of 4,731.5. The 1968 Nassau rate of all serious crimes committed per 100,000 inhabitants was 1,549.9.

In Suffolk, the 1969 crime rate per 100,000 inhabitants was 1,238.5, an increase of 11.5 per cent over the 1968 rate of 1,110.3.

Nassau Police Commissioner Francis B. Looney said that the county's 1969 crime rate was well below the national, metropolitan and suburban rates. In addition, he said, major crimes decreased 6.7 per cent during the first three months of this year compared with the comparable period of 1969.

In Suffolk, Police Commissioner John Barry said, "This is one of the fastest-growing counties in the country, and with the increase of people comes an increase in crimes."

[From the Long Island Press, Mar. 19, 1970]

LONG ISLAND CRIMES GO UP—INCREASES ABOVE SUBURBAN AVERAGES

The Long Island crime rate increased last year more than the national suburban crime rate.

According to an FBI report, yesterday, crime was up 13 per cent in the nation's suburbs. In Nassau the crime rate for seven major crimes was up 17 per cent and in Suffolk it increased 16 per cent.

While both counties showed decreases in murders—down 22 per cent from 1968 to 1969—the largest increases were in larcenies.

Nassau saw 36 per cent more larcenies committed in 1969 than 1968 while suffolk witnessed a 42 per cent increase in this field.

A Nassau Police Department spokesman explained that one reason for an increase in this field is because instead of listing many articles as lost property as was done in 1968, the police list them as larcenies.

Another reason the increases in rates seem higher in Nassau and Suffolk than on a nationwide basis is because the 1968 figures were very low to start with in some areas, according to a Suffolk Police Department spokesman.

He pointed out that Suffolk listed 19 per cent more rapes in 1969 than in 1968 but this really means a total of eight more rapes in a county where the population continues to grow. He explained there were 43 rapes reported in 1968 and 51 in 1969.

Other areas in which both counties showed rate increases were robbery, up 11 per cent in Suffolk and 33 per cent in Nassau, and auto theft, up 22 per cent in Suffolk and 14.8 per cent in Nassau.

The number of assault charges dropped in Suffolk by 7 per cent while increasing in Nassau by 32 per cent.

[From the New York Times, Oct. 9, 1972]

Violent Crimes Rising in Suburbs

but F.B.I.'s statistics show big cities still far ahead on a per capita basis

Violent crime in the nation's suburbs is increasing nearly twice as fast as in the large cities. But suburban crime rates, on a per capita basis, are still so low that even at the present rate of increase, there is no chance that suburbanites will soon be in as much danger of violence as city residents.

According to the Federal Bureau of Investigation uniform crime reports for 1971, crimes of violence in the 57 cities with more than a quarter-million people rose by 7.5 per cent over 1970, while in the suburbs the increase was 13.4 per cent.

But what the numbers really meant was this: For every 100,000 people in the suburbs, 206 were victims of violent crimes. In the large cities the number was 1,048.

In the residential, middle-class suburbs in the New York metropolitan area, violence is so relatively rare that local police spend only a small amount of their time on those crimes, compared to crimes against property.

"Violence? Gosh, it's so rare here it's like asking me how many rabies cases we've had in the last 20 years," said Chief Stephan Barran of the Greenwich, Conn., police. "More and more people are out walking at night, for their health."

His comment was echoed in varying degrees by law-enforcement officers in a number of suburban towns in Westchester, Nassau, Suffolk and Bergen Counties, as well as by those who take a broader view of the nation's crime problems.

That is not to say that suburban police have nothing to do, or that residents are not worried about crimes. Burglary, which has been increasing for years and is now at epidemic proportions in many areas, is the serious crime that consumes the most local police time and attracts the most attention.

The burglar-alarm business is booming in many of the areas' suburbs. Although violence is rarely a component of burglary, and most burglar-alarm owners do not even turn the machines on as long as they are in the house, the possibility of a violent confrontation with a burglar is ever present and frightening.

700 burglaries expected

"In 14 years on this force, I can't recall an act of violence associated with a burglary," said Lieut. George Calcagnini, chief of detectives in Yorktown, a northern Westchester community that expects to record more than 700 burglaries this year.

The figure will be up from 600 burglaries in 1971, a year when 21 crimes against the person were committed in Yorktown.

"Years ago, we had none at all, so I guess you could say there's been an increase in violence," Lieutenant Calcagnini said. He noted that most of the violence occurred between people who were already acquainted.

Numbers themselves are often more misleading than useful in attempting to arrive at a complete picture of suburban crime. Percentage increases that appear startling often rest on very small numercial basis.

Suffolk County, for example, experienced a 13 per cent increase in forceable rape in 1971, but, expressed another way, that percentage represents an increase of 10 rapes—from 73 to 83—in a year in which the county's population increased by 22,363 people to 1,149,393.

On a larger scale, the F.B.I. report for 1971 showed that the 7.5 per cent increase in violent crime in the cities amounted to 31,000 cases, while the 13.4 per cent rise in the suburbs represented only 12,000 crimes—and the suburban population outnumbers the big-city population by 56.9-million to 42.6-million.

Another misleading aspect of crime statistics is the inability of over-all "suburban" figures to differentiate between residential suburbs and those areas whose urban character would be obvious were they not dwarfed by a major city.

In Westchester County, Yonkers, which is on the New York City line and contains a quarter of the county's population, accounted for nearly one-third of the county's 293 assaults, nearly one-half of the 439 robberies, and five out of the 16 homicides in the first six months of 1972. Compared with the first six months of 1971, Yonkers showed modest decreases in crimes against property and modest increases in crimes of violence.

Violent crime was up for the county as a whole, but, according to Westchester County Sheriff Daniel F. McMahon, almost all the increases occurred in the county's cities.

Suffolk County has also experienced increases in violent crimes, with assault up from 285 cases in 1970 to 378 in 1971, and armed robbery up from 578 to 691. Most of the increase occurred in the four most highly urbanized towns—Babylon, Islip, Huntington and Smithtown, according to John Barry, the county police commissioner.

HIGHWAY ROBBERIES

Many suburban areas have noted increases in armed robberies of gas stations, motels, restaurants, and other business establishments, often near highway exists away from residential areas.

But street crime remains rare except for the run-down central areas of such suburban cities as Yonkers, White Plains, New Rochelle or Bridgeport, the number of assaults dropped from 99 to 69 during the first six months of 1972, a decrease that Joseph Walsh, the police superintendent, attributes, to the creation of a new 43-member Housing Authority police force.

Little research has been done on patterns of suburban crime, although two studies now under way should contribute valuable insights. In Westchester, the Council of Social Agencies has a $9,000 grant from the Federal Law Enforcement Assistance Administration to correlate crime statistics in each of the county's 205 census tracts with the social characteristics of each tract.

And the United States Census Bureau in cooperation with the Justice Department, is conducting interviews with a selected sample of 150,000 households for the first of what it plans as a series of "crime victimization" studies.

One reason for the low rates of street crime in the residential suburban areas may simply be logistic, a reflection of suburban living patterns.

"We don't have the opportunity for that kind of crime," said Thomas Facelle, the chief assistant District Attorney in Westchester. "In the city, there is that two- or three-block no-man's land between the subway and home. Here, people leave their office and drive right into their garage. There's no street crime because no one is on the street."

According to the F.B.I., killings within the family accounted for one-fourth of all murders in 1971, and another 40 per cent of the murders were the results of arguments, usually between people who already knew one another.

There is no doubt that fear of crime is growing in the suburbs, probably faster than the crime rate. Four years ago, a study comparing suburban and slum areas of Baltimore found that the suburban residents were five times more likely to be afraid of crime, but actually five times less likely to become victims of crimes than the slum residents.

That situation, if not the exact figure, seems to apply to many areas of the New York metropolitan areas as well.

Marvin Wolfgang, the well-known criminologist, says there are three reasons why the fear of crime in the suburbs outstrips the reality.

First, he said in a recent telephone interview from his office at the University of Pennsylvania, the rate of crime increase actually has been greater in the suburbs. Although the numbers are modest, rising crime is a reality.

The second reason is the increase in drug-related offenses, particularly frightening to suburban parents.

Third, he said, the knowledge that crimes such as burglary are often committed by people from outside the community creates the special fear of falling victim to "invaders from the outside," a fear of random attacks.

[From the Long Island Press, Mar. 17, 1970]

SUBURBAN CRIME INCREASING FASTEST

Serious crime, long believed to be centered in urban ghetto areas, is moving out to the suburbs at an increasing rate—and it's involving more younger persons.

Major crimes rose 11 per cent nationwide last year over 1968, but the biggest increase was in the suburbs—13 per cent.

By comparison, cities of at least 250,000 population had a 9 per cent jump and rural areas were up 11 per cent.

As for the swing to youth, arrests of adults rose 6 per cent while those of juveniles soared 11 per cent.

Disclosing these trends in his annual report on major crises, FBI Director J. Edgar Hoover said forcible rape led the list of crimes of violence with a 16 per cent increase. Murder was up 7 per cent, robbery 13 per cent and aggravated assault 9 per cent.

The densely populated Northeast had an average crime increase of 7 per cent—the lowest increase by region. The North Central states led with a 15 per cent increase, followed by the West with 12 per cent, and the South with 11 per cent.

Hoover said armed robbery rose 16 per cent and made up 61 per cent of all robbery offenses. Street larcenies were up 12 per cent and made up 61 per cent of all larcenies.

Hoover said serious assults where a gun was used as a weapon rose 12 per cent and nearly one out of every four aggravated assaults was committed with a gun.

He said 1969 police arrests for criminal acts excluding traffic offenses rose 7 per cent.

In New York City, the 1969 figures showed 1,043 murders, compared with 986 in 1968; 2,120 rapes last year and 1,840 in 1968, and 59,152 robberies last year compared to 54,405 in 1968.

[From the New York Times, July 25, 1970]

CRIME FIGHT HERE AIDED BY A GRANT

The State Crime Control Planning Board has awarded $4-million of Federal funds for combating crime to New York City, including nearly half a million for eliminating delay and inefficiency in the Criminal Courts.

Governor Rockefeller, in announcing the grants—part of $8-million in Federal funds under the Safe Streets Act—said that the aid was aimed at "one of the most critical problems in our state—processing cases in a timely manner."

The court program is designed to end long waits in detention pens—like those in the overcrowded Tombs Prison in Manhattan that resulted in riots—and also to reduce the time lost by policemen in the courts, to relieve witnesses of all appearances in court except to testify, and to give early trials to defendants charged with serious felonies, so criminals out on bail do not prey on the community.

The grants to New York City also included $1,053,565 for a program to reduce overcrowding in juvenile detention centers. For the training of center personnel, $104,961 more was provided.

In an effort to reduce the incidence of delinquency in the East Tremont section of the Bronx, $296,214 was given for a youth service program.

The Mayor's Criminal Justice Coordinating Council received $385,883 for staff support. The Education Task Force, whose members are assigned to high schools and colleges to mediate confrontations involving students and faculty members, was allotted $331,350 for expansion.

The Correction Department received $149,760 for 30 Spanish-speaking correctional officer aides, to improve communication with Spanish-speaking inmates.

Various programs in New York City for combating narcotics addiction and for fighting other forms of delinquency received grants. They ranged from $356,080 for continuing methadone treatment for addicts in Brooklyn to $9,200 for aiding probationers.

Buffalo, Rochester and Syracuse also received grants to improve the processing of criminal cases.

[From the New York Times, Aug. 18, 1971]

Rise in Jobs Poses Problem in Suburbs

Ten years ago much of Bridgewater Township, N.J., still looked much as it did when George Washington camped his troops in the safety of the first range of the Watching Mountains.

The township's population was 15,000 in 1960 and it contained industrial and commercial property valued at $30-million. Its mountains were wooded and untouched, corn grew on its plains and apple trees in its valleys.

Today Bridgewater has 30,000 people. Houses are silhouetted on the crests of the hills and office bulidings dot the flat plain. The town's industrial value has climbed to $161-million.

To a greater or lesser degree, the Bridgewaters are everywhere. The physical monuments to the economic success story of the New York suburbs cover the landscape: office towers rising at every highway intersection; shopping centers providing new definitions of the term with their sculpture gardens and community rooms; the sprawling campus-style headquarters of the corporate refugees from Manhattan.

But that success story has another side.

Land is more than wealth and power. It gives much more than merely physical shape to the suburbs. A team of New York Times reporters who toured the New York suburbs for five weeks found that the economics of land use was the prime factor in the growth of two closely related, vital components of the suburbs' economic health: jobs and housing.

Because local government must pay for itself by—the tax it puts on land—the property tax—land can mean either profit or peril to a town. If, because of the tax structure, some kinds of development—housing—cost the town much more than other kinds—industry—the town will inevitably avoid one and seek the other. Severe imbalance are the inevitable results.

Job opportunities in the suburbs have been increasing, but the availability of housing there lags so far behind that a majority of the region's labor force must endure long and expensive commuting to reach the jobs.

And while industrial development has meant huge tax advantages for some suburban communities, some neighboring areas that are not equally blessed with shopping centers or industrial parks stagger under huge tax burdens.

Although no one is yet suggesting that the boom is about to end or that the suburban monuments are crumbling, the growing imbalances have raised the question: How long can the suburbs sustain their record of economic accomplishment when the benefits fall so unevenly on the region's population?

According to the Regional Plan Association, 2.4 million additional jobs will be created in the metropolitan area by 1985. Two million will be in the suburbs.

In 1910, according to the Regional Plan Association, New York City contained 80 per cent of the region's office jobs. The proportion was 70 per cent in 1940 and by 1960 it had dropped to 60 per cent. Today the figure is 56 per cent. The figures are adjusted for the R.P.A.'s current definition of the 31-county metropolitan region.

New York City's proportion of total manufacturing employment dropped from 54 to 51 per cent from 1959 to 1965, and is expected to fall to 42 per cent in 15 years.

Fourteen of the wealthiest suburban municipalities in New Jersey have a combined population of 380,000, almost equal to the population of the state's largest city, Newark. The 14 contain industrial property worth $2.1-billion, according to figures compiled by the Suburban Action Institute, a foundation-supported research and civil rights organization in White Plains. The value of industrial property in Newark is less than a third of that figure, $665-million.

GROWING INDEPENDENCE

If there is one factor held in common by suburban communities surrounding New York City, it is a growing economic independence from the city.

In many cases, the perception of independence may not yet have caught up with reality. Suburban residents, after a lifetime of hearing their communities

described as bedrooms for the city, often persist in believing that to be true even if no one on their block commutes.

In fact, the city is moving toward becoming the bedroom as the suburbs approach the point of being net importers, rather than exporters, of labor. Brooklyn, the Bronx and Queens, with their vast supply of apartments and aging single-family houses, are becoming dormitories for those who work beyond the city limits.

The new suburban jobs are not only jobs for executives and office workers. As the suburban economy continues to diversify, wholesaling and manufacturing become more important.

According to an unpublished study by the National Committee Against Discrimination in Housing, 150,000 of the 750,000 new suburban jobs, created in the nineteen-sixties were blue-collar jobs, but during the same period the number of blue-collar workers living in the suburbs increased by only 50,000.

By 1985, the study predicts, the suburbs will have 65 per cent of the region's blue-collar jobs but a much smaller share of the workers.

With apartment development blocked by zoning regulations, and with the minimum price for new houses ranging from $30,000 in Suffolk County to as high as $50,000 in Westchester, the vast majority of people taking new blue-collar jobs in the suburbs will continue to find themselves priced out of housing near their places of employment.

Figures compiled but not yet released by the Tri-State Transportation Commission show that in Nassau County there are 139,000 more low-income and middle-income jobs than there are comparably priced housing units. In Bergen County, N.J., the deficit is 77,700 units.

The deficit is 82,200 units in Westchester County where, according to the County Planning Department, the number of jobs will exceed the number of employed residents for the first time in history within 10 years—an astounding milestone for an area that is virtually synonymous in the minds of a nation with the stereotyped commuter suburb.

These figures illustrate the change: In 1950, 76,000 people were regular commuters to New York City and elsewhere, and fewer than 10,000 people commuted to jobs in Westchester. Now, 116,000 commute from Westchester and 81,000 travel to the county, with the ratio getting smaller all the time.

The cost of the imbalance between jobs and housing is high, requiring expensive and time-consuming traveling. The cost is also high for the suburban employers, who have to depend on an outside labor force and who are concerned over the possibility of labor shortages.

One such company is the Mem Company in Northvale, N.J., manufacturers of the English Leather line of men's toiletries.

With 350 employes, the company is Northvale's largest employer. Its clerical positions are filled by housewives from the surrounding Bergen County communities. But half its employes are blacks and Puerto Ricans, most of whom commute from New York to their jobs on the assembly line and in the packing rooms.

Every morning, the company runs a bus from the George Washington Bridge terminal to its plant in an attractive industrial park, but a new employe may spend as long as two years on the job before he gains enough seniority for one of the 54 seats.

"Even though most of them can't get on the bus and have to use carpools, it gives us a psychological edge in recruiting," said George Danz, the company's personnel director. The bus costs the company $13,000 a year.

At least some employers have started to worry about the situation. A survey last year by the Somerset County (N.J.) Planning Department showed that 59 per cent of the county's major employers felt that the cost and availability of housing would restrict their plans for expansion.

More than half said that they would not be able to meet their labor needs under the current residential zoning restrictions, and half answered yes to the question: "Do you feel that some of your employes live so far away as to affect their efficency and present an economic burden?"

Eugene J. Schneider, executive director of the New Jersey County and Municipal Government Study Commission in Trenton said: "Unless the imbalance between jobs and housing is corrected all our natural advantages for industry will disappear."

But there have been few signs so far that companies are willing to exert pressure on local governments to change the zoning restrictions that underlie the housing shortage. Such restrictions rule out apartments and modest homes on small lots that workers with low incomes could afford.

The corporate giants that have the power to influence housing patterns are, because of their size, the least likely to feel the impact of any labor shortage.

"They know for a few dollars extra they can always get someone," said one Manhattan-based company executive who has been a close student of the corporate moves to the suburbs. "If you ask them why they don't use their leverage to change things, they say, 'Well, we just want to be a good citizen.'

"But, after all, they used their leverage to get in and get their zone changes in the first place."

The argument that suburban towns offer against residential development is nearly always financial. As long as the property tax is the chief source of revenue for local government, a town stands to lose money on all but the most expensive houses.

In Princeton Township, for example, a $60,000 house barely pays enough in taxes to offset the services—such as schools, sanitation and the like—made necessary by its presence.

North Castle, in Westchester County, breaks even on a $52,000 house. In New Canaan, Conn., the break-even point is $70,000.

The tax burden in the metropolitan area is not only heavy—property taxes in the Northeast have historically been the highest in the country—but it is distorted as well by the patchwork nature of development in the suburbs.

An example can be seen in Bergen County, where the two boroughs of Rockleigh and Northvale, each a mile square, sit side by side. Rockleigh has 200 people and a 126-acre industrial park that pays 90 percent of all local taxes, and, as a result, the property tax rate is 72 cents for every $100 of assessed valuation.

Northvale, with 5,200 people, depends on residential property for more than two-thirds of its tax revenue. The owner of a $40,000 house, who would pay $288 a year to Rockleigh, would get a tax bill in Northvale, where the rate is $3.87 per $100, for $1,362.

George Kershaw, an Eastern Airlines pilot who serves as Councilman, fire chief and tax assessor of Rockleigh, discussed the matter recently as he drove slowly through the industrial park.

PLANNING DEFENDED

"The trend may be to try to stop this kind of town," he said, "but we're not simply a tax haven. We did this through good, judicious planning."

Equally dramatic inequalities exist within towns.

Buttonwood Avenue, a hilly dead-end street in the town of Cortlandt, in northern Westchester County, cuts across a school district line. The houses on the northern half of the street are in the Lakeland School District, which has 8,500 students and a base of taxable property worth $178 million.

The other end of the street lies in Central School District 3, which has 3,150 students and property worth $273-million, including two $100-million Consolidated Edison power plants. The owner of a $25,000 house in District 3 pays $868 in school and town taxes. Halfway up Buttonwood Avenue, the tax on the same house would be $1,216.

As William Hitt, the Cortlandt Town Supervisor, explains it, the situation has become a vicious cycle. Industry does not want to move into the high-tax area, which has high taxes for the very reason that there is not enough industry on the tax rolls.

The inequities, as well as the actual weight of the tax burden, are what fuel voter resentment and the growing demand for reform, and both New Jersey and New York State have special commissions studying the property tax.

According to Thomas A. Dorsey, staff director of the New York State Joint Legislative Committee on Metropolitan and Regional Area Study, the basic question is "whether the property tax is still at all relevant."

If it is not, the problem is how to replace it. According to Mr. Dorsey, municipalities in New York State raise $3.8-billion a year through the local property tax, and "you'd have to go a long way to find another tax that can give you that kind of money."

There have been numerous suggestions for reform, although most are still at the discussion stage. Most focus on the financing of education, such as the assumption by the state of all local education costs.

Other proposals include sharing tax burdens, or tax ratables, on a county level or among groups of towns, and consolidating school districts.

Some planners and tax experts are skeptical about what impact reform, however needed, would have on zoning patterns. The economic argument is a valid

one, they say, but it is not the only reason the towns resist additional residential development.

"You get rid of the economic argument and then, if you are opposed to certain people moving into your neighborhood, you have to say it," said Arthur Kunz, assistant director of the Nassau-Suffolk Regional Planning Board. "You can't hide behind another argument. It would pull the bigots out of the woodwork."

INDUSTRY PEAK SEEN

Dick Netzer, dean of New York University's School of Public Administration, said, "Everyone knows that, strictly speaking, you're not supposed to spot zone on the basis of how it will affect taxes. But short of openly stating that purpose, you can be pretty damn overt about it. But you can't be overt at all about other reasons. There's some question as to how much the fiscal thing is a screen for others."

If suburban towns no longer needed tax ratables, Dr. Netzer suggests, they might quickly become disenchanted with the nonresidential development they are now so actively seeking.

"You might find out that nobody wants any factories any more," he said. "If it's not going to do them any good, they'll say, put it in the next town."

There are those who think that even without such a policy change, the flow of the glamour companies to the suburbs may be reaching its peak before slowing down.

"If a few things were different, I could argue as a businessman as strongly in favor of staying in the city," said D. Bruce Wiesley, a senior vice president of the American Can Company who was in charge of the company's move to Greenwich, Conn., last year.

"After all," he said, "in the city you have modern, beautifully convenient offices. When you pull down the blinds you don't even know you're in New York. And when you close these blinds, you don't know where you are either."

Others disagree, pointing out that the suburbs have natural advantages that seem to assure their continued economic success.

The Regional Plan Association estimates that a campus-style office building can be built for about 60 per cent of the cost of a skyscraper with the same number of square feet.

And the availability of land is important to manufacturing operations that function most efficiently spread horizontally through a one-story or two-story plant.

And there are such intangibles in the suburbs as the prestige of the suburban address and the commute over tree-lined parkways instead of tenement-lined railroad tracks. And no matter how high a price the suburban housing shortage may exact in the future, the executives who make the decision to move are not themselves much affected by the cost of housing.

[From the New York Times, Aug. 16, 1970]

SUBURBS ABANDONING DEPENDENCE ON CITY

The largest city in America is now the suburbs of New York.

They contain 8.9-million people, a million more even than New York City. They cover 2,100 square miles, 600 more even than Los Angeles and its suburbs combined.

They represent the fullest flowering of the historic migration of Americans out of their cities. For even here, in the orbit of New York—the Big Apple—the suburbs are strikingly, fiercely independent.

Huge numbers of suburbanites neither live, work, play, shop nor even go out to eat in New York City. And they fight, with passionate hostility, against the feared intrusion of change, of the inner city and of the people left behind.

As dramatically evident from official studies and five weeks of interviews by a team of New York Times reporters, the most critical commodity in this struggle against the city is land.

It is the land—and especially the emotional issue of how it will be used—that shapes politics and power in the suburbs, that governs the suburban economy, that determines where people work and where they live and how they travel.

New York's suburbs created a national image of bedroom towns for city workers. Yet how many of the counties around the five boroughs now send even half their workers to jobs in the city? None.

Nassau County has net commutation to New York of less than 38 per cent. Westchester has less than 32 per cent. In Suffolk County, 80 per cent of the workers who live there work either in Suffolk or Nassau. In Passaic County, 79 per cent work in Passaic or Bergen Counties.

The suburbs now have about half the area's manufacturing jobs, retail jobs and restaurants. And they have a full range of "urban" facilities.

Gleaming new office towers contrast sharply with the rolling greenery of pastoral Piscataway, N. J.

Every morning crowds of businessmen with briefcases at McArthur Airport in Islip L. I., board nonstop flights to Chicago or Washington.

Downtown for Wayne, N. J., is now a carpeted and air-conditioned area, framed by shrubbery and fountains, in an immense covered shopping mall.

The impact of such decentralization of urban functions can be quickly seen in other merely regional cities, where the business districts become ghost towns each nightfall. Here decentralization is masked by two factors. One is size.

"There are three things one must always remember about New York City," says Edward J. Logue, president of the State Urban Development Corporation. "They are scale, scale and scale."

Two million whites my have fled the city in the last 20 years, he acknowledges. But still, "There is no other city with anything approaching New York's proportion of the metropolitan population."

The second factor is New York's enduring role as a national city—a financial hub, cultural capital, media center and mecca for young adults.

And, for the most part, that is the city that the residents of New York's suburbs relate to, in the same way that residents of the suburbs of other cities do—the national city, a place to visit and enjoy, not as residents but as tourists.

Ask suburbanites the last time they went to New York. Again and again, they gave answers like "for the last antique show" or "last December, to show the kids the Christmas lights," or "in the fall, for a play."

BACK TO CENTERLESS WORLD

And after the show, with a wince at the $30 or $40 tab for tickets and parking, they speed back to the spacious, centerless world they have created in the suburbs.

Like suburbanites everywhere, they strive to protect that world against change with a ferocity that has become a national political fact.

The hostility was typified, says a Suffolk County official, at a recent town zoning hearing on the construction of luxury apartments.

A New York City fireman leaped onto a chair, waived a newspaper full of city crime and welfare news, and shouted: "We don't want this kind of trash in our neighborhood."

And yet for all the ferocity, even irrationality, signs of change are now emerging in the mushrooming, maturing New York suburbs, signs that could well foretell the next cycle in the life of suburbs across the country.

The dikes of hostility appear slowly, but with gathering speed, to be leaking, eroded not by an ominous outside urban tide, by feared Federal pressure for housing integration, but by enemies within.

In town after town, residents find they are excluding not only outsiders but their own grown children, older adults and civil servants. These are often unable or unwilling to maintain the expensive single-family homes so frequently required by tight exclusionary zoning.

Increasingly suburbanites find that their exclusionary strategies no longer work and may even promote the very sprawl, scrambled land use and urban chaos that these strategies were intended to prevent.

TREND CALLED INEVITABLE

At this point the hostility remains intense; the forces for change are far from decisive. But, in the opinion of some authorities, the trend—for the complex array of suburbs here, as well as for the more easily definable rings of suburbs elsewhere—is inevitable.

In smaller, newer cities, "suburbs" more clearly mean communities that have developed since the start of the automobile era on open land around the urban core.

Here, prior to the automobile, there was no such clean slate. The metropolitan area already included railroad suburbs dating to the eighteen-seventies; inde-

pendent cities like Newark, White Plains or Bridgeport; and resorts like Long Beach or the Jersey shore.

But it is the automobile—and the freeways it has generated—that have turned the land between and beyond the old towns and the old rail lines into a vast urban complex.

Its primary characteristic is centerless independence of the city. In place of an urban center, mobile suburbanites use the varying facilities of their separate communities collectively, as an interlinked Outer City.

Elsewhere sweeping circumferential freeways have made development of a unitary outer city literally possible. Here the population, diversity and distance of the suburbs are too great to be overcome by an eight-lane concrete loop.

Yet ever here, the signs of expanding centerlessness, of the collective suburban "city," are clear.

In Nassau County, Leona Baum, a petite mother of two teen-aged boys, describes how her family lives in almost exactly the terms people use in the outskirts of Los Angeles:

"We live in East Meadow. I work in Garden City. My husband works in Syosset. We shop for clothes in Hempstead. My husband's Pythias Lodge meets in Great Neck. Our temple is in Merrick. The children's doctor is in Westbury. And we pay our parking tickets in Mineola."

And the centerless growth continues. On the moon, the terminator is the moving line between light and dark. In many suburbs, a similar line marks the contrast between development and farmland.

In Westchester the line moves out a mile a year, says Peter O. Eschweiler, the Planning Commissioner. "If you want to see what your town will look like 10 years from now," he says, "drive 10 miles back."

ZEALOUS ZONING OF LAND

On Long Island the urbanization line is instantly visible from the air. That line, planners say, moves even faster—two miles a year.

In Middlesex County, N.J., the line is not so easily visible, says George M. Ververides, a planner. "There's no front. It's like Vietnam. It's happening all over."

The suburbs have, however, sought to protect their development from unwanted change by controlling their most valuable resource: Land.

Each small community exercises its local zoning power zealously. Repeatedly, town boards engage in what is called, variously, upzoning, exclusionary zoning, or large-lot zoning. Whatever the name, the purpose is identical:

If the only housing permitted is single-family homes, and if these must be sited on half, full, or even four-acre lots at a minimum, only the middle-income and upper-income can afford to move in.

In Suffolk the typical new house cost $14,500 in 1960.

Now the cheapest new house is $30,000, according to a study made for the National CouncilAgainst Discrimination in Housing.

The council estimates that at least 80 per cent of New York area families are now priced out of the new housing market entirely.

Some of the reasons for such vigilant exclusivity are straight-forward. Municipal costs, particularly for schools, are soaring and more people can easily mean more deficit.

"THE COUNTRY" GUARDED

Many suburbanites moonlight or put their wives to work to save enough to escape from the city. They are quick to block the intrusion of any urban problems into their refuge "in the country."

But other explanations for suburban hostility are not so candid or rational. "New York has a lower proportion of blacks than many cities," says a suburban planner, asking anonymity. "But even so, the sheer raw numbers are great. So people out here perceive a great tide of blacks and Puerto Ricans they could be engulfed by."

Other suburbanites disguise their hostility behind code words. They talk of the need to protect "the country image" or to preserve "our environment." One county, says Jack Wood of the National Council Against Discrimination in Housing, defends itself by saying it supplies an "airshed" for the metropolitan region.

RISE IN CONSERVATIVE VOTE

Still other suburban residents concede fears of the outward movement of city crime, welfare costs and other burdens of the poverty population.

But almost none admits openly to a desire to keep out minorities. Again and again, suburbanites insist that they have welcomed black families to their neighborhoods.

And yet: "There's a tremendous upsurge in the Conservative party vote from people who were Democrats in the city. Like Jews who envision being surrounded by the blacks," says a Long Island official, himself a Jew. "Surrounded! Just like the Arabs are surrounded by the Israelis."

The effects of suburban exclusion are clear. New York's black population in the nineteen-sixties went from 14 to 21 per cent. The suburban proportion, meanwhile, went from 5 to 6 per cent.

In town after town, population figures show that one-tenth—or one-hundredth—of 1 per cent is black.

"We are very fortunate in our welfare situation," says Newton Miller, the Mayor of Wayne, N.J., where the population doubled, to 50,000, in the sixties.

What is the welfare proportion, he was asked. "Under 10." Under 10 per cent? "No, under 10 families."

The issue now is not whether exclusion has succeeded, but whether it may, in fact, have succeeded too well.

Some urbanists press the moral argument of unfairness. The suburbs, they say, cannot in good conscience continue to pirate from the city only its desirable functions and people.

SUBURBAN "DUTY" CITED

Suburbs must, the argument goes, take their share of the social welfare task now being left almost entirely to impoverished central cities. And they must provide lower-income housing near suburban jobs.

In recent months this argument appears to have become a centerpiece of liberal thought about urban problems. There are, however, some strikingly contrary views.

George Sternlieb, an authority on inner-city housing, believes that "the only thing that's holding our central cities together is the suburban housing shortage."

If the suburban barriers were lowered, he contends, it would not be the poor or black city residents who would move outward. It would be the city's remaining middles-class and lower-middle-class residents, now deterred from moving by high costs that are made still higher by exclusionary zoning.

The result could be to diminish even further the tax base from which cities now try to finance costly social services for the needy.

Others agree with this assessment. If suburban zoning were relaxed, "it would be the middle class that would move first," says Alfred B. Del Bello, the energetic young Mayor of Yonkers. "They would continue to vacate the cities, leaving an increasing proportion of poor black and Spanish population."

DOUBTS ABOUT EXCLUSIVITY

In the suburbs, meanwhile, there are growing signs that people now wonder whether exclusion is so wise after all. The doubts have nothing to do with morality, fairness or concern for the urban poor. They arise from practical reasons of self-interest.

Some towns, says David Bogdanoff, Westchester's largest developer, are coming to realize that not every community can assure its finances and its image by emulating Scarsdale.

"Setting yourself up as a prestige town, with large lot zoning, won't work any more," he says. "There just aren't that many people who can afford upper-middle-class housing to fill all those towns."

Another practical reason for rising doubts about the tactics of exclusion is that those tactics may hurt as much as they help.

On Long Island, planners say, oil spillage is a hazard because it is shipped to 12 harbors, and oil truck traffic is a nuisance. But the solution—a pipeline—has been blocked because the Town Board of Babylon refused in early July to permit construction of an essential storage terminal.

"It's a classic case of not-on-my-blockitis," says Lee E. Koppelman, Nassau-Suffolk Planning Board director.

In Westchester, recalls Robert Weinberg, a developer, officials in every town insisted on specifying where bus routes could go. "The result was such a zig-zag that it made express routes impossible."

"EAGER TO CORRUPT"

Still another reason for doubts is evidence that present exclusionary tactics are not exclusionary enough.

"The suburbs develop elaborate master plans and tight zoning which they are eager to corrupt whenever a big company, a good "ratable" that would pay lots of taxes, comes along," says one developer, asking anonymity.

"To find anything that's considered a bad land use but a good ratable," says another developer, "look at the village line. That's where the gas stations are. "Let them bother the people in the next village," the town officials think. "They don't vote for me."

This is exactly what happened, Harry Butler says, with the enormous Willowbrook Center in Wayne Township, N. J., where the wares include a marquise-cut diamond ring ($2,215), a Lhasa Apso puppy ($279), and a potted stag horn fern ($75).

"Willowbrook doesn't bother anyone here," Mr. Butler says, "because it's way on the south border, next to Little Falls Township. It bothers them; they get all the traffic and harassment. We get all the taxes."

THE JIGSAW EFFECT

People like Harry Butler around the suburbs wonder out loud about the long-range result of such narrowness and hostility.

Stretches of Nassau County, where booming development of the fifties has now matured, may provide strong clues.

Drive north from Garden City, L.I., and in a few minutes, one passes an elegant country club . . . and an intersection where narcotics are said to be sold at night; the miracle mile of elegant stores in Manhasset . . . and a roadside beauty shop whose name may betoken both the race and occupation of its patrons: "Ebony Maid".

"The whole county's like that," says Dominic Badolato, a youth program director, "It's all a jigsaw, scrambled eggs."

Will the suburbs remain an exclusive sprawl, closed to those who can't afford the cost?

"It's going to break," says Herbert J. Gans, a noted Columbia urbanist, "because of middle-class demand. So many young families are already starting to form that change has to come."

Wayne's Mayor knows the dilemma firsthand.

"There are very few places in Wayne he can afford to live," Mr. Miller says of his 23-year-old son. And his parents, in their 70's, live in a retirement village in South Jersey.

"We'd welcome lower-cost housing for our youth and elderly," he says warmly. "But there's no guarantee we could keep it for them. And given the choice, we just won't do it."

He hesitates for a moment—perhaps a telltale moment. His college ring glints as he rubs his gray crewcut. "It's a problem. No question about it."

[From the New York Times, Feb. 11, 1971]

MORE BLACKS IN SUBURBS, BUT RATIO STAYS STABLE

A growing number of blacks moved to the suburbs in the nineteen-sixties, but the largely white character of the suburbs was maintained by a huge simultaneous movement of whites there, a 1970 census report disclosed today.

At the same time, 3.4 million blacks moved into the central cities. Four big cities now have black majorities, against one in 1960, and seven others are more than 40 per cent black.

In New York City, the proportion of black residents rose to 21 per cent from 14 per cent. Manhattan lost 17,000 blacks, but remained 25 per cent black because of the loss of 197,000 whites. The black population of Brooklyn increased 284,000 and the Bronx 194,000, bringing each to about 24 per cent black.

Queens gained 112,000 black residents, bringing its black proportion to 13 per cent.

The city as a whole gained 579,000 black residents, census experts estimate, including about 85,000 from births in the existing population and from 300,000 to 400,000 from net migration.

The census report, covering the 67 metropolitan areas with 500,000 or more people, showed that the central cities, as a whole, went to 23 per cent black from 18 per cent in the decade. But the black proportion of the metropolitan areas increased much less, to 14 per cent from 12.

CENSUS REPORTS 4 BIG CITIES WITH NEGRO MAJORITIES

The black suburban population grew 762,000 in the decade, a gain of 42 per cent, the report said. This represents a significant increase over the nineteen-fifties, when black movement to all suburbs, not only those in the 67 largest areas, totaled 600,000.

But 12.5 million whites also moved to the suburbs. As a result, the black composition of the total suburban population in 1970 was 4.5 per cent, barely changed from the 1960 figure of 4.2 per cent.

Experts believe that this white growth includes virtually all the 2.5 billion whites who moved out of the central cities in the decade. New York City alone lost 617,000 white residents.

Nationally, 58 per cent of the whites in metropolitan areas lived outside the central cities, but only 16 per cent of the blacks did so. The national totals from the last two censuses are:

1970:	
White:	
Central city	39,817,000
Suburb	54,093,000
Black:	
Central city	12,487,000
Suburb	2,577,000
1960:	
White:	
Central city	42,355,000
Suburb	41,625,000
Black:	
Central city	9,097,000
Suburb	1,815,000

More than a third of the national suburban movement of blacks was accounted for by three metropolitan areas—Los Angeles, where 124,000 black residents moved to, suburbs; Washington, 84,000, and New York City, 77,000.

CITY LIMITS EXCEEDED

The census data released today show only total numbers for metropolitan areas and do not make it possible to determine whether the outward movement of blacks indicates either enhanced integration or economic progress.

Urban authorities have observed that, in some cities, blacks become "suburban" simply because ghetto areas have spilled across the city limits. Elsewhere, they say, blacks remain isolated in both new and historic "ghettolets" in what were once outlying areas.

In several Northern and Southern cities, however, the proportion of suburban residents who are black considerably exceeds the national figure of 4.5 per cent. In Miami it is 12 per cent, in Houston 9 per cent, in Washington 8 per cent and in St. Louis 7 per cent.

Blacks constitute 11 per cent of the national population.

Washington remains the most heavily black city. More than 71 per cent of its city population of 757,000 is black, against 54 per cent in 1960. But for the Washington metropolitan area the black proportion has barely changed, going from 23.9 per cent in 1960 to 24.6 per cent in 1970.

The other cities with black majorities are Newark and Gary, Ind.—which, like Washington, have black Mayors—and Atlanta, which has a black Vice Mayor.

In some areas, the percentage growth of black population in suburbs was startling. In Cleveland, it was 453 per cent, in Salt Lake City 354 per cent, in Minneapolis 223 per cent.

But these percentages masked small total numbers. The gain in Cleveland was 37,000. In both Minneapolis and Salt Lake City it was 2,000.

[From the Suffolk Sun, editorial, July 14, 1969]

NEW LOOK NEEDED AT SUBURBAN BLIGHT

The amount of blight in any area aflicted by suburban sprawl may be measured, as a rule, in inverse ratio to the amount of sensible land use planning that has been done beforehand. It is also influenced, of course, by the amount of tinkering politicians do with local zoning ordinances.

One way in which this problem may be overcome has been suggested by a White House advisory group, appointed by former President Johnson and headed by ex-Sen. Paul H. Douglas. The National Commission on Urban Problems asks that local government powers be broadened to provide for more orderly residential, commercial and industrial development.

Under the plan, counties would set aside large tracts of land and permit no use of it except as part of a large-scale planned development. It would allow broadened government use of eminent domain, or condemnation proceedings. Instead of taking only as much acreage as is immediately needed for public projects—a power it already has—government could condemn and thereby acquire large parcels in an effort to control development.

As an alternative, which might have greater appeal to financially pressed counties like Suffolk, governments—rather than condemning and acquiring land themselves—might vest their powers in private groups whose plans meet rigid specifications.

The commission's proposals are unquestionably radical. Its objectives, however, are as old as the hills. Our current pattern of land development, through local zoning codes, is only a few generations old. In Suffolk, for example, it began in 1932. It has not done the job it set out to do 37 years ago, thanks, in part, to politicians who have subverted the system to line their pockets.

More community planning was done in Colonial days than is being done now. Communities then were usually set up around a town square, in careful, orderly fashion. Going back to medieval times, the castle was built upon a hill, the common folk in the town below, and the entire city surrounded with a high wall as a defense against outside attack. It was a deliberate overall design, not left to chance.

Efficiency, economy and conservation are best served by large scale planning. Suffolk still has enough undeveloped land to benefit immeasurably by a regional plan. The sprawl has not yet swallowed up the entire county, but that day is fast approaching.

We do not need nor want walls around Suffolk. The seas provide a natural moat on three sides and the natives beyond the western boundary are not hostile. But Suffolk would do well to limit the helter-skelter, piecemeal development that has spread across Nassau.

So those who fear changing the present system are really supporting a relatively modern approach, which has been tried and often found lacking. Many traditionalists are prepared to return to older ways. The most conservative people, therefore, are likely to be in the forefront of the radical movement for change.

[From Newsday, Mar. 25, 1969]

LI PLANNERS GET FUNDS TO FINISH STUDY

The Nassau-Suffolk Regional Planning Board will be able to complete its comprehensive plan for Long Island's future growth on schedule aided by a $150,000 federal grant announced yesterday by the Department of Housing and Urban Development.

Last month, board officials had reported that a shortage of funds and inaction by the federal government would delay the board's programs. "This (grant) will allow us to proceed on schedule" with the master plan, said bicounty planning director Lee Koppelman. The federal department also announced a $30,000 loan to develop the City of Long Beach's first Turnkey public housing project and a $7,500 loan to the Village of Freeport for a 50-home rehabilitation program already under way.

The $150,000 bicounty grant equalled the amount requsted last year by the planning board, which is scheduled to complete its recommendations for the Nassau-Suffolk region's land-use, transportation, economic and fiscal needs next

summer or fall. "Without it, the well would have run dry," Koppelman said of the federal grant. However, he said that programs of the Regional Marine Resources Council, which is not aided by the federal government, were still in jeopardy because of a shortage of funds. "We're still grappling with that problem, but we're not pessimistic," Koppelman said.

In Long Beach, Housing Authority Chairman D. Lawrence Rose said that the $30,000 loan would be used to pay for surveys and legal and clerical work needed to devise a plan for 200 low-income apartments, 150 of which will be for the elderly. Rose said the authority would select sites for the housing this week and that some of the units would be located in existing buildings. Under Turnkey legislation, the housing authority will buy the units from private builders.

James L. Bifulco, housing authority director, estimated that the apartments would cost the city between $15,000 and $19,000 per unit. Rose said that none of the Turnkey units will be located in the city's urban renewal area, where 100 units of low-income, public housing are planned, 24 of them for the elderly.

Freeport's housing authority director, John E. Williams, said that the $7,500 loan to his village would defray the cost of planning that had already been completed for rehabilitating 50 one-family homes scattered throughout the northeast section. Williams said that the authority was awaiting federal approval of the plans for the rehabilitation project.

Other Turnkey projects have already been approved in Freeport, the City of Glen Cove and Hempstead Town. Construction has already begun in Hempstead. In Suffolk, Huntington Town is considered a Turnkey project, and one for Islip Town is pending.

[From Newsday, Apr. 9, 1970]

Housing Bars Seen Hurting LI Job Needs

New jobs often go begging on Long Island because unemployed city residents, many of them black or Puerto Rican, are barred from living in the area by discriminatory and costly suburban housing, according to a 250-page report issued here today.

The National Committee Against Discrimination in Housing, reporting on the metropolitan area, including parts of Long Island, New Jersey and Connecticut, blamed poor planning by "hundreds of local governments, each seeking to manipulate to its own best advantage." (A federal official urges suburban communities to stop trying to exclude blacks and the poor. Story on Page 26.)

The committee, supported by 48 national groups interested in civil rights, was granted $480,000 by the Carnegie Corp. for the two-year study.

"The region's unworkable development policies (are) rooted in institutionalized racial and economic discrimination," the committee said. "Black cities and white suburbs, unemployment at the core and labor shortages on the periphery, overcrowding in the old cities and acreage lot sizes in the growth areas—all bear witness."

Long Island planning officials generally agreed with the report, but spokesmen for two major employers, Grumman Aerospace Corp. and LILCO, did not.

SOLUTIONS TO BE SOUGHT

In the coming year of the project, the committee will search for solutions. Its work will include economic projections of the Plainview-Hicksville and Farmingdale areas. Claiming to be the only national organization devoted solely to civil rights in housing, the committee is best known for filing the major brief two years ago when the U.S. Supreme Court upheld an all-but-forgotten 1866 federal law prohibiting discrimination in private sales and rentals.

"Harlem is so remote from Scarsdale, Short Hills or Oyster Bay in terms of person-to-person contact in any field that it could not be more removed if it were on another continent," the report said. "The white and black populations know of each other's communities only through the news media." Black and Puerto Rican population runs as high as 99.3 per cent in central Harlem, but it is under 1 or 2 per cent in most Long Island communities. The report said that the countywide averages are 4.9 per cent in Nassau and 6.3 per cent in Suffolk. "To find suburban municipalities with 5 to 10 per cent minority population is to come on islands of democratic living," the report said.

Lower income groups are needed in suburbia for the trade and service jobs, but "this elementary fact of economic life has evidentally been ignored or defied by" the decision makers, the report said. Labor shortages "threaten to curtail expansion and to inconvenience residents." Of the 990,000 new jobs in the region from 1959 to 1967, only a fourth were in the city and many of those were for professionals. Of the 100,000 new retail jobs from 1959 to 1965, suburbia claimed 95 per cent. Reverse commuting to suburban jobs is "almost useless," the report said, because it takes too much money, time and trouble.

"Every suburban shopping center visited showed evidence of a labor shortage, and 'help wanted' signs were numerous," the report said. One unnamed black, who had been a clerk in a Suffolk shoe store for 18 months, attributed his promotion as manager mainly to the high turnover. "Substantial vacancies" of 4.7 and 6.6 per cent were found when the survey went to 17 companies employing 1,658 persons in Lake Success, Nassau, and 12 firms employing 4,166 in Deer Park, Suffolk. The survey did not specify the firms.

ADVERTISEMENTS REFLECT SHORTAGE

An "increasingly severe housing shortage" was typified by New York Times and Newsday advertisements which the report said showed "dominant ranges (of) $35,000 to $50,000 in Nassau and parts of western Suffolk." The report said that it would take an income of $17,000 for such a house. It also found that most recent new suburban hirees did not move in for their new jobs but "were already living in the area."

"Those already in the suburbs are convinced that their own interests argue against higher densities," the report said. "They have the power under state zoning laws to guard the portals to their communities and determine how many can come in and what one's income must be to enter." Specific barriers are discrimination in sales and rentals, lack of public housing, resistance to apartments, high interest rates, large lots and other expensive requirements, resistance to modern building methods, high taxes, dwindling land, and rising costs of material and labor. Study Director Ernest Erber predicted that if the trends continue "the whole metropolitan system will break down."

In Oyster Bay, one of the committee's supporting groups, the National Association for the Advancement of Colored People, is pushing for rezonings to allow more multiple housing for low- and middle-income families.

Nassau-Suffolk Regional Planning Director Lee Koppelman said, "Basically the finding are generally correct. There is a housing problem in both counties." James Rousmaniere, commerce and industry commissioner for Nassau, said that prospective new firms "continually stress the frightful housing situation they must confront their employees with." His counterpart in Suffolk, Gilbert Hanse, sees ample labor supply for unskilled and executive classifications, but not in between. And he also finds a housing problem.

[From the New York Times, June 20, 1969]

HOUSE PANEL TRIMS FUNDS FOR HOUSING

WASHINGTON, June 19.—Economy-minded Congressmen slashed funds today for low-income housing and the Model Cities program and trimmed all but $10-million from a proposed $55-million increase in funds for summer jobs for disadvantaged youths.

The initial tests on what Congressional liberals and moderates have termed "national priorities" came almost simultaneously on the Senate floor and in the House Appropriations Committee.

The House committee, warning that the "inflationary spiral must be contained," chopped nearly $500-million in Nixon Administration budget requests, primarily in housing, before approving and sending to the floor a $14.9-billion money bill to finance a number of Government departments and agencies.

The Senate, meanwhile, refused to vote $55-million more to the Neighborhood Youth Corps to pay for 136,500 summer jobs that the United States Conference of Mayors had said were needed for disadvantaged urban youths.

With its Appropriations Committee firmly in control, the Senate voted instead a $10-million increase for the program.

The additional money was contained in a $4.4-billion appropriations bill providing supplementary funds for the fiscal year that ends on June 30. About $1.3-billion of the sum will go for the Vietnam war.

MODEL CITIES SLASH

Ever since this session of Congress started, liberals and moderates have been insisting that the time had come to adjust "national priorities" to give greater emphasis to domestic problems and less to the military and to space exploration.

In the big $14.9-billion money bill cleared today by the House Appropriations Committee, a relatively modest cut of $19-million was made in the $3.7-billion budget request for the national space program.

The economy ax fell heaviest on the Department of Housing and Urban Development and its programs geared toward upgrading the cities and providing housing for low-income families.

The committee trimmed $384.3-million from housing agency programs, leaving the department with a total appropriation of $1.6-billion.

The Model Cities program—inaugurated during the Johnson Administration to help wipe out urban blight—was given $500-million, a cut of $150-million.

The committee also trimmed $150-million from the $250-million the Administration had sought for urban renewal programs.

The committee granted the full $23-million sought for payments under the program whereby the Federal Government helps subsidize rent payments for low-income families. But it cut $50-million from the $100-million sought for subsidizing contruction of these rental units by private builders.

The committee also trimmed $7.5-million from the $10.5-million the Administration had sought for enforcement of the open housing law enacted last year.

Officials of the housing agency expressed surprise at the severity of the cuts but otherwise declined comment.

In a further economy move, the Appropriations Committee turned down an Administration request for $150,000 to start work on an official residence for the Vice President.

Congress authorized up to $750,000 for a Vice-Presidential home three years ago but the Johnson Administration delayed requesting funds because of the Vietnam war.

This year, the Administration asked for $150,000 for planning and designing the house. The subcommittee that handled the bill granted the request, but the full committee eliminated the money today, upon the motion of Representative Frank T. Bow of Ohio, ranking Republican on the committee.

While the committee imposed budget cuts on most of the 19 agencies and departments included in the money bill, it increased funds for the Veterans Administration by $34.5-million, for a total of $7.7-billion.

SUBCOMMITTEE REBUFFED

In the Senate, the move to increase funds by $55-million for summer jobs for youths was led by Senator Jacob K. Javits, Republican of New York. Terming it "a modest test of priorities, he argued that additional funds were needed "if we are to avoid a long, hot summer in the cities."

The Senate Appropriations Committee had recommended a $7.5-million increase over funds already available for the summer job program. Seeking to head off the Javits proposal, committee leaders agreed to increase this to $10-million, and the Senate approved today.

The $10-million more is expected to provide about 20,000 new jobs in addition to the 340,000 jobs for which funds are already available.

The $4.4-billion catch-all bill, passed by the Senate today, now goes to a Senate-House conference to iron out differences. The Senate version is about $652.5-million above the House version.

[From the Suffolk Sun, June 27, 1969]

GROUP STUDIES HOUSING PLAN

About 50 Suffolk County business, government, and religious leaders are discussing the structure of a housing development corporation which, if formed, would help fulfill the county's acute housing needs.

The corporation, still in the planning stages, would be a private, non-profit organization designed to produce moderate and low income housing. It would involve all segments of the community ranging from civil rights to labor groups.

Those assembled in the County planning board auditorium Wednesday heard Bill Hirschorn, executive director of the Hartford (Conn.) Housing Development Corporation, describe ways to form such an organization.

[From Newsday, June 19, 1969]

LI DESPERATE FOR HOUSING, OFFICIALS AT FORUM AGREE

The builders, the bankers, the planners and the officials from the Federal and State housing agencies sat down at an all-day conference yesterday and agreed that Long Island is in desperate need of new housing. At the end of the day, the only problem remaining was how to provide it.

"Long Island's housing needs are huge," said planner George Raymond. A bare minimum of 48,500 units of public low-income and publicly assisted middle-income housing are needed right now, he said, and as for the future, "up to 80,000 units by 1985." Fewer than 2,000 such units have so far been constructed.

The problems, said Lee Koppelman, director of the Nassau-Suffolk Regional Planning Board, are money and zoning. Richard M. Wasserman, president of Levitt & Sons, one of the largest housing development firms, said that his company had the money, but not the zoning to allow ambitious, large-scale housing programs. And Richard Van Dusen, undersecretary of Housing and Urban Development, also cited what he called "multiple, conflicting, separately administered and often obsolete zoning and building codes."

Those who control the local zoning and building codes that determine how land can be used, the elected town and village officials of Nassau and Suffolk, had been invited to the conference at C. W. Post College but only a few attended. A councilman and a trustee or two were spotted among the 150 participants in the proceeding, sponsored by the Long Island Association.

The conference speakers talked about the kinds of projects that might be undertaken on Long Island, if the problems could be overcome. Robert McCabe, general manager of the state's new Urban Development Corp., which has the money to build large housing projects and the power to ignore local zoning, but is sensitive to political pressures, talked about two new towns the corporation is planning to build upstate.

One, housing 25,000 people, will be built in Baldwinsville, near Syracuse. The other, still in the preliminary planning stages, will be in Amherst, near Buffalo. "That ought to be the approach on Long Island," McCabe said. "We think we can do something along these lines (in eastern Suffolk)." But McCabe said that his agency's policy is to wait until local officials invite it into an area before acting. And there have been no invitations. Most Long Island town and village officials are hostile to the new-town concept, although county officials have expressed interest in it.

Wasserman said that Levitt & Sons is "considering lots of ideas." One idea, he said, is to put up a factory turning out a new kind of prefabricated housing consisting of "three-dimensional" rooms to be set up at the housing site.

[From the New York Times, July 13, 1970]

PROPOSAL FOR LONG ISLAND ASKS MAJOR SHIFT IN DEVELOPMENT

COORDINATED TRANSPORT AND HIGHER-DENSITY HOUSING EMPHASIZED IN PLAN

Park Purchase Backed

MORE ZONING POWERS URGED FOR COUNTIES—3.3 MILLION POPULATION SEEN BY 1985

A comprehensive plan for Long Island proposes major changes in housing and transportation patterns, "aggressive" park acquisition and the review of zoning at the county level to combat "deterioration and obsolescence."

A summary of the plan was released today by the Nassau-Suffolk Regional Planning Board. The plan is a result of a $1.5-million four-year study. It proposes that the following major projects be completed in 15 years:

The construction of 400,000 new housing units, including 128,500 apartments, to meet the predicted population growth of the area from 2.6 million people now to at least 3.3 million in 1985.

BUSES WOULD REPLACE TRAINS

Extensive subsidized improvements to bus systems and the conversion of existing trackage of the Long Island Railroad to exclusive lanes for buses east of Patchogue on the Montauk branch, east of Northport on the Port Jefferson branch and east of Riverhead on the main line.

Three new so-called activity centers, at Yaphank, Middle Island and Manorville

in the Town of Brookhaven in Suffolk County, as major concentrations of commercial, recreational and housing facilities.

"Park-and-ride" centers adjacent to the Long Island Expressway at Roslyn Heights, Plainsview, Melville and Dix Hills to encourage car pools, reduce traffic and act as transportation hubs.

The construction of a limited-access east-west highway from the proposed Clearview Expressway extension in southern Queens to the proposed Sunrise Expressway in Babylon; a north-south expressway in western Nassau from Sunrise Highway to the Long Island Expressway, and a major highway from Cold Spring Harbor to a point east of Port Jefferson.

The public purchase and leaseback of at least 30,000 acres in the east end of Suffolk County to preserve that area's rural and resort character and the creation of several new parks.

FIRST COMPREHENSIVE PLAN

Lee E. Koppelman, the executive director of the bicounty boards, said that the planners had not "costed" the plan, saying that estimating its cost would be "merely an academic exercise."

Many of the proposals included in the plan had been made previously as separate suggestions, but the plan is the first over-all program to meet Long Island's environmental, economic, recreational and transportation needs.

The plan, whose theme is "corridors, clusters, and centers," emphasized that Long Island's growth, which has been at one of the fastest rates in the country since World War II, has been "the antithesis of a rational development pattern, one that would preserve open space, encourage the elimination of deterioration and obsolescence, and provide adequate housing, linked to jobs and shopping by a balanced transportation system?

To implement its goal of orderly development, the plan calls on the Nassau County Board of Supervisors and the Suffolk County Legislature to adopt, after discussion and public hearings, the applicable sections of the plan as guides to budgetary and planning decisions on a county level.

The plan also states that the two counties should have the right of first refusal on all properties that it suggests for park or conservation use.

Mr. Koppelman said in an interview that he expected the major opposition to the plan to be centered on its zoning sections.

SHIFT IN ZONING POWER

While declaring that "zoning should continue to be the responsibility of local government," the plan states that "existing state legislation providing for county review should be strengthened," particularly with regard to giving each county planning commission review powers over critical areas such as the shoreline, adjacent wetlands and proposed county parks.

Eugene H. Nickerson, the Nassau County Executive, said last night that "it is a good and sound plan and I hope the counties, towns, and villages will implement it." He said he thought it stood a "good chance over a period of time."

John V. N. Klein, the presiding officer of the Suffolk County Legislature, said that the plan "is such a complex, all-inclusive document that there are going to be segments of local government that will not approve some of its proposals but there is so much of substance in it that it should be adopted and implemented by every local government substantially as presented."

Some of the principal findings of the plan are:

HOUSING

Most of the projected growth on Long Island will occur in Suffolk County, whose population will exceed that of Nassau County before 1985. Suffolk, the largest county in the state, now has an estimated population of 1,200,000 and Nassau 1,400,000.

The greatest emphasis in housing must be away from single-family detached homes, the plan said, as the population trend is toward the young and the elderly.

The plan calls for 400,000 new housing units. Citing a scarcity of apartments and land presently zoned for apartments, the plan recommends 62,500 apartment units for Nassau County and 66,000 for Suffolk County. The plan calls for the replacement of more than 30,000 obsolete or substandard units of housing.

The plan predicts that for households of low to middle income, Nassau County will need 25,000 publicly assisted housing units by 1985 and Suffolk County 51,000. "Of these," it maintained, "about 21,000 units in Nassau and about 23,000 in Suffolk are needed to make up present deficiencies."

TRANSPORTATION

Forecasting a 50 percent increase in automobile traffic in the area by 1985, the plan recommends the establishment of a coordinated mass transportation system. Rail and bus service would be coordinated and land near transportation centers would be used at higher than present densities.

A bicounty department of franchises is recommended to increase bus service, extend routes to areas now unserved and relieve the "chauffeur problems of the housewife.

Retrieval of a "significant amount of recreational water frontage" can be achieved, the plan said, through the use of larger tankers, inland oil storage facilities and pipeline distribution.

Recommending vertical and short take-off and landing airport sites at all general aviation airports and at Roosevelt Raceway, the plan predicts that aircraft use will more than double by 1985, necessitating the expansion of existing facilities. Considering the possibility that the United States Navy facility at Calverton in Suffolk County might be chosen as a major jetport for the metropolitian area, the plan calls for an extensive buffer area to be reserved around it and the Suffolk County Airport in Westhampton, the recently deactivated Air Force Base.

The bicounty planning board previously recommended construction of a bridge across Long Island Sound from Oyster Bay in Nassau County to Rye in Westchester County, and while the organization continued to favor such a bridge, the new plan cautioned that the "generally low-intensity development of the North Shore" should be protected.

Pointing to the problem of freight, it maintained that a bridge across the Sound would "mitigate the dead-end situation for some truck freight shipments, enabling the island to qualify for a change in the rate structure that will make the two counties competitive with other areas."

PARKS AND RECREATION

The plan's highest priority is given to land for parks and conservation. Nassau County now has less than 15,000 acres of vacant land, approximately 6 to 7 per cent of the land area, and this is "insufficient to satisfy all of the projected needs," the plan stated.

Projecting a shortage of 15,000 acres of parklands in Nassau County by 1985, the plan called on the county to acquire immediately any golf courses that might be offered for sale or development.

Because Suffolk County still has 41 per cent of its land vacant, it will be able, with careful, controlled planning to meet its own needs and absorb some of Nassau's, the proposal said.

A large new park is recommended at Woodbury and smaller ones at Woodmere, Bayville and at the Naval Devices site at Sands Point in Nassau County as well as the acquisition of some North Shore estates and the Mott, Lattingtown and Stillwell Lane Woods.

In Suffolk County, the plan recommends a state park acquisition of a large site in Flanders and additions to the state parks at Montauk Point and Wildwood. New county parks are urged at Wading River, Iron Pier and Fresh Pond on the North Shore, at Reeves Bay, Robins Island, Nichols Point, Gardiners Island and Napeague in the Peconic Bay-Gardiners Bay area and extension of county holdings is suggested at Shinnecock Inlet and the barrier beach near Hampton Bays.

AGRICULTURE

Future growth in the eastern end of Suffolk County must be limited, the plan warned, if its provision of recreation and food for the broader region is to be saved. The plan suggests that this be accomplished through land banks, clustering and small centers.

To protect agriculture—Suffolk County is the richest agricultural county in the state—the plan said that a minimum of 30,000 acres of the most productive farmland in the Towns of Riverhead, Southold and Southampton should be publicly purchased and then leased back.

ZONING

Local municipalities are urged not to enact zoning rules contrary to the purposes of the plan. The Nassau-Suffolk Regional Planning Board, according to the

plan, should be granted review powers to resolve land-use and zoning questions affecting communities along the Nassau-Suffolk border. It also "should be notified of all proposed zoning changes in the two counties and have the privilege of appearing where necessary on behalf of the plan."

In Nassau County no residential land should be rezoned to industrial, commercial, or office use "unless it appears beyond a doubt that the land is unsuitable for parks or open space, or for development of multifamily units," the plan said.

To ease the critical housing shortage, the plan calls for clustering—the combining of townhouses and apartments with single-family detached houses to maintain the over-all original permitted density.

"The central corridor of the island should contain the major employment centers and other traffic generators," the plan continued, and "to serve this traffic, transportation centers are planned for Mineola, Hicksville, East Farmingdale, Ronkonkoma, Yaphank and Calverton, at the points where the main line of the railroad crosses major north-south highway routes."

[From the Long Island Press—Jan. 31, 1967]

LI Warned: Plan Now or Face City Woes

There is a need for greater regional planning in anticipation of Long Island's immediate future growth, a State University at Stony Brook professor said yesterday.

"Unless strenuous efforts are launched to create new areas of economic and cultural activities within the suburban belt of an expansive metropolitan region, one cannot foresee anything but a continuation of suburban sprawl," said Dieter Zschock, editor of "Economic Aspects of Suburban Growth."

According to a report published by the Economic Research Bureau at the university, Nassau almost has reached its saturation point in terms of available land and housing. But Suffolk, particularly the eastern portion, is just entering its maximum growth period, according to the report.

Featured in the book are opinions from economists and planners throughout the United States.

In the introduction, Edgar M. Hoover, a Pittsburgh University economics professor, warns that Long Island may repeat "the mistakes of earlier development in the region and find itself left with the same problems of congestion, pollution, ugliness and poverty that exists in the inner city."

William Hamovitch, another contributor, believes Long Island will be able to expand its employment opportunities and modern services and will lose its rural character.

"Suburban growth will continue unhaltingly, but suburban communities are in danger of losing the very attributes that attract newcomers," said the Queens College Economics Department chairman.

Opportunities for scientific research and ultimate "clean" industries are provided by the university in conjunction with Brookhaven National Laboratory in Upton, Hamovitch said. He also forecast "large numbers of new migrants" on Long Island unless zoning regulations change radically.

Zschock, in a chapter on "poverty amid affluence in suburbia," said two of every five poor persons in the New York metropolitan area live "within its affluent suburban belt."

The study used a $4,000 annual income for a family of four living in a suburban area as the poverty level and $3,000 for a family living in the more remote agricultural area.

The editor said 10 per cent of all Nassau-Suffolk families had incomes below $4,000 in 1960. "This problem is particularly acute because those affected by it view themselves surrounded—and still widely ignored—by the more affluent segment of the nation's population," he said.

Among major problems of the poor are transportation, housing, employment and education, according to Zschock.

The studies detailed in the volume were sponsored by the Economic Research Bureau as an outgrowth of last year's publication, "Brookhaven in Transition," also edited by Zschock.

The book also was supported by federal funds under the Higher Education Act of 1965 and an allocation from the university's Graduate School.

Other contributors include Lee E. Koppelman, Nassau-Suffolk Regional Planning Board executive director; Albert Levenson, associate professor of economics at Queens College; and Robert Lekachman, professor of economics at Stony Brook.

[From the New York Times, Feb. 4, 1969]

President Moves to Restrict Role of Poverty Board—Meets With Urban Council on Taking Some of Major Functions From OEO

ACTION DUE NEXT WEEK—HEAD START MAY BE FIRST TO GO—NIXON ASKS AIDES TO REVIEW LEGISLATION PLAN

The Nixon Administration moved forward today with its plans to strip the Office of Economic Opportunity of some of its major functions and transfer them to other agencies.

Informed sources disclosed that although no "final" decisions had been taken on the antipoverty agency's future there would be an "interim" announcement sometime next week stating that at least one of the agency's major programs—presumably Head Start—was to be transferred to another department of the Government.

Reflecting his concern for an early resolution of the status of the antipoverty program, President Nixon met for most of this morning with his Urban Affairs Council.

FEW DETAILS RELEASED

The White House released almost no details about the session, which reportedly focused on the fate of the poverty agency and the future alignment of the Administration's own efforts in the antipoverty field.

The antipoverty program is our Middle East," one council member commented afterward, suggesting that the subject was receiving the same priority in the domestic field that the President and his advisers had placed on the Arab-Israeli dispute in the foreign field.

In a related action on the domestic front, the White House disclosed that Mr. Nixon had issued 15 more directives to Cabinet officers, agency heads and special advisers asking them to review and comment upon proposals for legislative action made by the President during the campaign and by his special teams during the transition period.

WIDE RANGE UNDER STUDY

The 15 directives, described briefly in a White House statement released by Ronald L. Ziegler, press secretary, brought to 29 the number of orders dispatched by Mr. Nixon to his principal Government officials.

They ask for review and comment on proposals ranging from elaborate changes in the welfare system to studies of the "rising costs" of Medicare to suggestions for agricultural reform.

Among the directives was one aimed at the Secretary of Health, Education and Welfare, Robert H. Finch, and the Department of Labor asking for "studies into the need for substantive changes in O.E.O. programs and approaches."

But on the basis of information available today it was clear that such studies were already well under way both in these agencies and in the Urban Affairs Council.

Not only did the council meet on the question of the antipoverty program this morning, but a special subcommittee of the council has already met twice to consider changes in the antipoverty effort.

The basis of all these deliberations—and the best available guide to the probable shape of the Administration's final disposition of the antipoverty agency—is the report of a team headed by Richard P. Nathan.

Mr. Nathan, a liberal Democrat, delivered his report to Mr. Nixon and Mr. Finch in early January. He is now assistant director of the Bureau of the Budget and is in almost daily communication with Daniel Patrick Moynihan, the President's urban affairs adviser, and Stephen Hess, Mr. Monynihan's principal deputy on the council.

The team's report made several major recommendations related to the Office of Economic Opportunity, most of which are expected to be followed.

It recommended, first, that the agency's "national emphasis" programs—including Head Start, legal services; Upward Bound, comprehensive health services and family planning—"be spun off to other agencies as soon as they are firmly established."

It also recommended that the Job Corps program be discontinued as a "separate entity" within the poverty agency and be transferred to the Department of Labor or the Department of Health, Education and Welfare.

At the same time, however, it urged the incoming Administration not to dismantle the Office of Economic Opportunity but, instead, to change its name and convert it into an agency largely concerned with the intervention and protection—the "care and feeding"—of experimental antipoverty efforts that might otherwise suffocate in the vast executive departments.

The "reconstituted" poverty agency would also continue to manage the network of local community action agencies established under its auspices over the last several years and designed to encourage citizens' participation and self-help activities.

Finally, the agency would also, under the team's recommendations, assume jurisdiction over neighborhood "community development—corporations" called for in legislation now pending before Congress.

The legislation is designed to create incentives for neighborhood residents to form community business ventures.

The team's report recommended that the "spinning-off" of the poverty agency's major program functions should properly begin with Head Start, which it described as "ready for delegation" to another department.

This evening a ranking White House official all but confirmed that Head Start would be the first poverty program to leave its present home.

He pointed out that the principal architect of Head Start, Jule Sugarman, had moved over to the Department of Health, Education and Welfare six months ago. Asked what Mr. Sugarman was doing in his new post, the official replied:

"He's waiting for his program to arrive."

Mr. Nixon's directives to his Cabinet and other officials included an order to the Treasury Department to "study proposals for responsible use of tax incentives to encourage private enterprise to participate in improving economic and social conditions in poverty areas."

[From the New York Times, Aug. 17, 1971]

Land Is Prize in Battle for Control of Suburbs

Land is the coin and the treasure of the suburbs around New York City and that land—some of which has risen in value in 20 years from $700 to $90,000 an acre—is the prize in a continuing battle for control of the 775 municipalities that make up the world's largest suburban area.

The struggle over the land within 100 miles of Times Square, in its simplest terms, is between the people who already have some—whether a 70-foot-wide lot in Massapequa, L.I., or a 1,000-acre estate in Far Hills, N.J.—and those who want new residents and more intensive development in the suburbs for their own personal profit or social goals.

A team of reporters from The New York Times who toured the New York suburbs for five weeks found that in town after town there were fights over land use with large numbers of people sharing a single goal—to keep other people, new people, out of their community.

And in those same towns there was a surprising answer to the question of who is winning the struggle, who runs the suburbs. The recurring answer was: "The people," the people who live in the towns, who have their own property.

But this is not the whole story of the New York suburbs. The people there often watch, helpless and frustrated, as their lives and towns are changed by decisions of Federal and state governments or by profit-minded combines of developers and politicians.

But, in general, the people who now live in the suburbs have one superweapon—zoning—and they have used it to become the dominant force in the struggle over land use.

The other side of the struggle, the forces of change, involves an uneasy coalition between the men who will make money if the land is intensely developed and

men who seek social change, civil rights activists and professional planners who want to move low-income and moderate-income people out of the city.

The builders, landowners and politicians, some of them vulnerable to the corruption that comes with the profits of land development, win a few battles. Many suburbanites interviewed in the last few weeks, in fact, thought the builders were always winning—they complained about new gas stations along their highways and new homes or apartments rising.

GROWTH RESTRICTED

But not much is actually going up, for the trend is clearly with "the people" against change.

Westchester County, for example, has moved steadily toward more and more restrictive zoning and its population capacity (if every vacant lot were built on as densely as possible) has dropped from 3.2 million in 1952 to 2.3 million in 1957 and 1.8 million today.

The Rockland County News-Leader-Independent commented editorially on the trend two months ago in the following way :

"At a recent meeting of the Nanuet Rotary, a fellow said half-jokingly, 'You know who runs Rockland County? Fifty women with baby carriages who turn out to protest everything and anything' . . . He's right. They seem to wield more power than a bevy of legislators, supervisors mayors and councilmen all put together. They are indeed the new power elite—a force that sets officials trembling at their very approach."

John F. English, the former Nassau County Democratic chairman who is now a key figure in the Presidential campaign of Senator Edmund S. Muskie, noted :

"Suburban government is much more responsive to the people than other American government. It's the politics of the territorial imperative, the protection of their property. That means opposing new housing and new people, anything that might change the status quo."

"The power is really with the people," said Paul Davidoff, co-director of the Suburban Action Institute, which has filed several suits in an attempt to force suburban communities to drop restrictive zoning and accept low-income housing.

"They act perfectly rationally to protect their interests by keeping everybody else out," he said. "And you can see their success by looking at the number of development projects turned down by any suburban government. They only change zoning if they desperately need industry to help pay the tax bills."

Three miles away from the institute's small office in White Plains, Robert Weinberg, founder of Westchester County's largest developer. Robert Martin Associates, unhappily agreed.

STATUS QUO RULES

"I'm one of the largest landholders in Westchester," he said. "Within a half-hour of here, I've got 500 to 600 acres I can't do anything with because of zoning. It's all zoned for one house an acre to keep out anyone earning less than $25,000.

"All they want here is the status quo—a guy wants to walk his dog in my woods, he thinks they're his woods. Citizens have an absolute right over zoning. We just can't run with local little hometown rule. Every idiot can come down to the town hall and have his say and the guys up front tremble because they're afraid they won't be re-elected."

However, the metropolitan area's population keeps expanding and now people want to live in the suburbs, especially as more and more companies move there.

The pressure of that expansion, basically involving the white middle class, is becoming so great that some observers believe that Federal and state governments will soon have break down local zoning restrictions—as the Urban Development Corporation already has the power to do in the State of New York.

A good illustration of the impact of zoning can be found in Wayne, N.J., 20 miles west of the Lincoln Tunnel. There, the value of an acre of land has risen from about $700 to as much as $90,000 as the township's population grew from 12,000 in 1950 to 49,000 in 1970.

But the top value of that acre depends on zoning—an acre worth $90,000 today for high-density use like office buildings or garden apartments is worth only $10,000 if it's zoned for one single-family home.

"The power to zone is the power to make millionaires," said Lee Edward Koppelman, the director of the Nassau-Suffolk Regional Planning Board. And millions were made as the population exploded into Wayne and a hundred other towns around New York.

Who made the money? "The land speculators and real estate operators made most of it," said Harry J. Butler, a former Mayor of Wayne. "The farmers who originally owned the land here never realized its value."

Mr. Butler, a Democrat, spent a stormy term in office publicly denouncing the profitable relationship between politics, land speculation and zoning in his town. It happened that the township officials he was denouncing were Republicans.

In one case, for example, he pointed out that three municipal officials involved in the rezoning of two residential acres to allow construction of a private medical center were the principals of the corporation owning the land.

The value of that little tract increased by $80,000 with the rezoning. Without a variance, he said, the same medical center could have been built in a "business-professional" zone only 1,000 feet down the same road, but there would have been no $80,000 rezoning windfall.

But in Wayne, as in most suburban municipalities, the people opposed to further change have had at least their share of victories. Petitions signed by 7,500 Wayne residents and clamorous opposition at public meetings that sometimes lasted into early morning hours recently killed a proposed high-rise apartment development.

'RESPONSIVE' PUBLIC

The key to citizen participation in suburban governments, according to some political scientists, is the newness of those governments and the fact that many local politicians are amateurs who allow an unusually large proportion of public business to be conducted as open meetings.

The number of people who attend such meetings or who come out to vote is usually low, but apathetic citizens are often aroused and organized instantaneously around public issues, such as zoning variances.

These issues might be considered and decided in private within city governments, which have had centuries to perfect the art of decision-making within a shielded bureaucracy rather than at town council meetings.

In a study of Levittown, N.J., which has since changed its name to Willingboro, the sociologist, Herbert J. Gans, offered polls showing that governmental decisions were "remarkably responsive" to the wishes of the majority of citizens, even when those decisions were primarily influenced by small private-interest groups.

"The people generally win if they find out what's going on, but most of the money changing goes on before the people get there," said Mr. Gans, the author of "The Levittowners" and one of the nation's suburban scholars.

"When it's still farms, everyone who lives out there shares in a bonanza before the new voters get there. After that, if Mr. X wants to subdivide his land to increase its value, he can bribe every town official $50,000 and see those officials voted out 15 minutes later when the people get angry. Then new guys are elected and they stop the building."

The land action has now moved out from places like Wayne. It is in locales like eastern Suffolk County, where Mr. Koppelman estimated that 40 per cent of the vacant land might be held by speculators; in Putnam County and in western New Jersey—even as far out as the Sussex County farm country that will soon be linked to the city and inner suburbs by Interstate Route 80.

THE BATTLE IS JOINED

Somerset County is made up of 198,000 people living in an area about the size of New York City—in lovely little places named Peapack-Gladstone and Bedminster, 35 miles from the Hudson River—and it is one of the next battlegrounds.

In fact, the battle is already well under way as Western Electric learned when it tried to move its national headquarters to Bedminster and withdrew the plans after facing 400 unhappy residents at a town meeting in the local high school's gymnasium.

There are, of course, already growing clusters of development and industry in Somerset. But, mainly there are miles of gently rolling hills where Mrs. Jacqueline Onassis and friends sometimes fox-hunt, where Doris Duke, C. Douglas Dillon and the Englehard family own huge estates.

LIMITED PROJECTION

There is also a master plan in Somerset County and some of the most restrictive zoning in the country. The Somerset County Planning Board projects a

maximum population of 400,000 by the year 2000 and its planning director, William Roach Jr., talks hopefully of holding out and letting most of the population growth leapfrog to rural Hunterdon County to the west—where Western Electric is now trying to situate.

That would leave much of Somerset as a kind of giant country club, the place where the best-paid executives live and commute to jobs, most of them in other suburban areas.

Somerset has the zoning to do just that—63 per cent of the county is zoned to restrict building to one-family homes on lots of one to 10 acres. Only two of the 21 towns have multifamily (apartment) zoning and 95.3 per cent of Far Hills Township is zoned for 10-acre building.

It's possible that with such zoning, and with the personal power of some of its residents, Somerset is immune to the kind of growth that overwhelmed much of Nassau County. But even in protected communities—Mr. Gans calls them "vest-pocket principalities"—some people are beginning to have second thoughts about what kind of future they are making for their towns.

Police Lieut. George D'Amicao of Northvale—a north Bergen County town of 5,200 people where 1,600 residents signed petitions that helped block a garden-apartment development—put it this way:

"My daughter will be getting married in a few years and I'd like to see her remain here. A nice little development wouldn't hurt anyone. Give our kids a chance. It's unfair. We had our chance to move out here."

COMMON TREND OF THOUGHT

Mr. D'Amicao's way of expressing a thought came up in almost every interview about government and power in the suburbs: Does democracy and home rule mean that the people who already live within the arbitrary boundaries of a community have the right to keep everybody else out?

Mr. Weinberg, the Westchester builder, and civil rights activists like Mr. Davidoff and Mr. Gold all favor the same solution to their different problems—they want state or Federal action to allow zoning at higher levels of government.

"The housing mix should be mandated at a higher level where it's more difficult to get at the public official," said Mr. Weinberg. "How long can the cities stay in misery while everybody out here sits, enjoying the American dream. What right does a person living on a quarter-acre lot have to make the next guy live on a half-acre? If you want to live in a park, buy it."

"The Federal Government will eventually have to step in," Mr. Gans predicted, "because the people who want to live there will be middle-class people, people who can make their demands felt. Zoning and other safeguards will fall."

If he is right, the power of the people will be tempered by direct intervention of higher government. It is already tempered, of course, by many other factors, such as the pressure to reduce homeowners' tax bills by bringing in industry, especially along highways and the borders of neighboring municipalities,; which must then deal with traffic problems.

When you ask Mr. Koppelman, the planner, and Mr. English, the politician, about the most powerful visible forces on Long Island, both men immediately answer: "the Republican organizations and Newsday."

And in each town, residents agree on an answer, generally naming a man or an institution with heavy local economic interests who becomes involved publicly or privately in a wide range of issues, winning more often than losing.

In Islip, the names that came up in interviews were Anthony Pace, a lawyer and town Republican leader, and Edward McGowan, a former Republican leader and one of the town's largest landholders.

PATTERN UNCHANGING

The name of Newsday, the 458,000-circulation daily newspaper published in Garden City, is also mentioned again and again, not surprisingly, since the newspaper began the investigations of land dealings that sent greedy local officials to jail.

"Planning has a chance on Long Island," said Mr. Koppelman, "because Newsday supports it. And Newsday is the only thing that's kept Long Island from going all the way down the drain of dishonesty."

In other suburbs, the pattern of power is the same but the names change.

* * * * * * *

the suburbs are often well-educated, but nonworking housewives; taxpayers' associations in many towns which regularly fight to reduce school and municipal

budgets; Spyros Lynos, known as "The Golden Greek" in Wayne because of his land and construction dealings, and similar financial-political operators in other towns; International Business Machines, Inc., in Dutchess County and Johnson & Johnson, Inc., in Somerset County, both with thousands of local employes, including many in elected offices, but both reluctant to become so visibly involved in local affairs that they become issues or targets in local elections. And, in town after town, the Republican party.

The suburbs are not the Republican monolith often portrayed in the past. In fact, half the 18 United States Representatives elected from New York's suburbs are Democrats. But Republicans do tend to dominate suburban politics for several reasons, especially because they are permanently organized in many small communities along lines reminiscent of big-city Democratic politics of the nineteen-forties.

The home as the center of politics, of course, is still a major part of the story of suburban power.

"People came here to get away from it all, from the problems of the city, of

* * * * * * *

any responsibility for things like low-income housing and the officials they elect understand that their responsibility is to keep the community the way the people here want it."

GENE STEWART'S LAHONTAN VALLEY CAR-RAL,
Fallon, Nev., Aug. 19, 1973.

Senator ALAN BIBLE.
U.S. Senate,
Washington, D.C.

DEAR SEN. BIBLE. Enclosed, please find some clippings from the Reno Gazette. This is just the beginning of what is happening to our State and our Nation.

I'm sure you must realize what will happen to the economy of our State when the building trades in our State come to a halt. It will have a devastating effect on every citizen here, including our gambling industry which is so helpful to our economy, and of which we are so proud.

I have been a resident of Nevada since 1939. For the past twenty-two (22) years I have been in the automobile business. By February of this year I had finally accumulated enough to buy my own new car agency. After paying for it and the necessary equipment to operate the shop, it left very little operating capital.

Two years ago our flooring interest on new cars was 5¼%. When I opened my business in February it was 7%. Now I am paying 10% and have been told already that it will be 10½% before September 1. This increase in interest has made it impossible for us to order any more 1974 models. Summed up, this seems to me to be the situation: We can't afford to stock new cars and even if we had them no one could afford to buy because at the rate it's going now the unemployment rate will be sky high.

For the past several months all you hear about is the Watergate situation, pollution and ecology. Our nation's leaders have turned their backs to the deplorable situation our country is coming to, while they played hide and seek with Watergate and Mr. Nader tries to figure out some other idiotic idea to force manufacturers to put on our new cars so the price can be raised another 5 to 10%.

In Mr. Nixon's speech to the nation concerning Watergate, he said something to this effect, "Get Watergate off TV and the front page and let the courts take care of these that are guilty, then we can go on with the more important task of running our Great Nation." This is the one thing in his entire career that I have agreed with him about.

Mr. Bible, I desperately urge you to take action immediately and bring these interest rates back down to a figure that we can all afford to live with, otherwise I feel that within the coming year our great State of Nevada, as well as the Nation, will be in a depression like we had in 1930.

I am sending a copy of this letter to Congressman David Towell in hopes that he, also, will help you in this problem. I feel that this is a problem that must be placed in a number 1 position to save the economy of the State of Nevada.

Respectfully yours,

GENE STEWART,
President.

THE COSTS OF OVERSPECIALIZATION IN THE MORTGAGE MARKET

By

Dr. Kenneth J. Thygerson

Economist

United States Savings and Loan League

August 28, 1973

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I. INTRODUCTION

The savings and loan business has grown to play a vital role in both the real estate mortgage financing market and over-the-counter savings market. At year-end 1972, savings and loan associations held 44.2% of all residential mortgage debt. They comprised by far the largest single holder of one-to-four family home mortgages with 47.7% of the total, versus only 16.4% for commercial banks, the next largest holder. In addition, they were the largest holder of mortgages on multi-family properties, with 27.8% of the total, compared to 22.6% for life insurance companies.

Savings and loan associations had deposit liabilities of $207 billion at year-end 1972. This comprised approximately 40% of the aggregate over-the-counter savings -- defined to include the deposits in mutual savings banks, credit unions, savings and loan associations and time and savings deposits of households, personal trusts and pension funds held in commercial banks.

The relative importance of this intermediary both as a provider of funds to the mortgage market and as a depository for savings of the household market seems quite clear. Any external disturbances which affect the operations of associations can be expected to be reflected in nearly equal proportions on these sectors of the economy. Of particular importance, however, is the ability of the savings and loan association to supply credit to the construction sector.

The savings and loan business has come under rather severe competitive and financial pressures since the mid 1960's. During these years, savings and loan associations entered a period of reduced growth, increased deposit volatility and declining profitability, all of considerable magnitude. In

large part, the eroding financial and competitive position of associations can be traced to the structure of their assets and liabilities and to their high degree of specialization in conventional single-family mortgage loans. This financial structure, combined with the Viet-Nam induced economic boom and subsequent periods of accelerating inflation, has forced the industry to bear the costs of the interest rate risk they assume because of the nature of their assets and liabilities.

The difficulties of the savings and loan business during the past decade and especially this year have prompted a number of academic, governmental, and industry spokesmen to seriously question the long-term advisability of constraining the association investment activities almost entirely within the residential mortgage market.

This paper will deal with the issue of whether or not the interests of the consumer, the savings and loan business, and the financial markets in general are being best served by legislatively constraining savings and loan associations to invest almost exclusively in residential mortgage assets.(1 To analyze this important question, this paper will review the structure of the savings and loan business, the economic environment in which it operates, the competitive forces which bear upon the business, and specific industry and legal practices that help determine its performance and long-term sustainability as a major financial intermediary.

This paper will focus on the significant changes that have occurred in the last decade that seem to bear upon the recent problems of the business because of its sole dependence on mortgage investments. Specifically, this paper will investigate:

1) The effects on the business of the high social priority placed on maintaining a fully employed economy, and the general tendency to rely on restraining monetary policy to arrest the attendant inflation which often results from the pursuit of this goal. The focus here will be on the evaluation of whether or not the asset-liability structure of the savings and loan business is sufficiently adaptable to function well in an environment of interest rate instability and periodic and sustained increases in inflation rates.

2) The effects on the business of specific laws and financing practices within the mortgage market that have from time to time jeopardized the financial performance of the business and its ability to serve the housing industry. The focus here will be on the detrimental impact of such legal constraints as usary ceilings on mortgage rates, constraints on the geographic holdings of mortgages by associations and limitations on the use of variable rate mortgages. Also discussed will be the costs to the industry which result from the traditional practice of offering their borrowers loans with liberal prepayment penalty and renogotiation clauses.

3) The effects on the savings and loan business of recent Governmental activities within the mortgage market. Here we will focus on the costs to the savings and loan business of several unintended side effects resulting from the increased mortgage creditor role of a multitude of recently established state and federal credit agencies serving the mortgage market during the last several years.

II. THE HIGH COST OF INFLATION AND MONETARY INSTABILITY ON THE SAVINGS AND LOAN BUSINESS: THE STRUCTURAL DILEMMA

Characteristics of the Savings and Loan Association

The fundamental economic role of the thrift institution is that of a financial intermediary. As such, it gathers savings from the public and invests these savings in various assets, mainly in residential mortgages.

Unlike commercial banks, however, the savings and loan business is considerably more specialized in its operations. The assets which the business is allowed to hold are highly restricted by Congress through either the Federal Home Loan Bank Board and Federal Savings and Loan Insurance Corporations or through the various state regulatory agencies. These restrictions include: (1) geographical limitations on the origination and holding of mortgage loans; (2) percent of asset limitations on the various types of mortgage loans, including restrictions on property type, value of property, and type of borrower; and (3) limitations on allowable types of assets.

Virtually all of the association's assets are confined to real estate credit instruments. The only major exception is liquidity held by associations. Liquid assets are held primarily in the form of government and agency securities and demand deposits and currency. The result is that 85% of the total assets of the industry are comprised of single-family, multi-family and commercial mortgage debt.

Table II-1 shows the aggregate balance sheet composition of the FSLIC insured associations as it looked on December 31, 1972. With roughly 85% of the total portfolio devoted to mortgages with average loan lives averaging between 7-12 years, it is clear that the average return on assets of

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associations responds very slowly to short-term movements in current market mortgage rates. Rather, the average portfolio yields of associations exhibit a significant lag with respect to any dramatic changes in current rates.

TABLE II.1

Balance Sheet Of All FSLIC Insured Associations

(December 31, 1972)

(Dollars shown in Billions)*

	Amount	Percent of Total	Liabilities	Amount	Percent of Total
Cash and Liquid Assets	$ 19.0	8.0%	Passbook Savings	$101.6	43.0%
FHA & VA Mortgages	28.6	12.1	Certificates & other Savings	99.3	42.0
Conventional Mortgages	172.2	72.9	FHLB Advances	8.0	3.4
Other	16.5	7.0	Other Borrowings	1.7	0.7
			Loans in Process	6.1	2.6
			Other	4.9	2.1
TOTAL	$236.3	100.0%	Reserves and Surplus	14.7	6.2
				$236.3	100.0%

*Amounts may not add to totals due to rounding.
Source: Federal Home Loan Bank Board.

Another characteristic of the mortgage loan portfolio held by the savings and loan association is that it has poor marketability. In periods of financial stress, when associations are in need of liquidity, they find it difficult to convert their mortgage assets into cash for several reasons. First, savings and loan associations have a preference for conventional mortgage loans. The conventional mortgage loan, however, has no well-developed secondary market, as opposed to FHA and VA mortgages where a more fully

developed secondary market has been developed. Secondly, a secondary market for mortgages would not be an entirely satisfactory solution to the liquidity needs of the savings and loan association. This is because during periods when the rate structures move up rapidly, any earlier loan acquisition made at lower interest rates must be marketed at a discount to sell. Associations have not built up a large reserve position, as indicated in Table II-1. Therefore, should they desire to sell existing loans in the secondary market, this would, in most cases, not be possible without seriously depleting the reserves of the association. As a result, associations are generally "locked in" with respect to their holdings of mortgages made in prior periods.

The liability structure of the savings and loan is the antithesis of the asset structure. As shown in Table II-1, roughly 50% of the total savings liabilities of the savings and loan are passbook accounts. These are assets held primarily by households which are payable on demand at full principal value. The remaining 50% of the savings are primarily in the form of certificates with maturities averaging substantially less than 4 years. This is because few associations have had success in marketing these long-term liabilities to savers, an indication that the saving customer is primarily interested in return and high liquidity of his asset. Also, most associations cannot afford to pay the going rates for long-term funds because the spread between their asset yield and the cost of these funds is insufficient. When the saver is interested in longer maturing assets, it appears that he is attracted to the primary security markets where he purchases common stock, corporate bonds, municipal or government securities. Equally important are life insurance reserves, pension fund reserves and real property.

This liquidity requirement of the savings and loan association customer is reflected in the volatility of the savings account. Each year the total withdrawals of savings in associations average over 30% of total savings balances, as shown in Table II-2. This indicates a high turnover and movement of accounts as well as a high transactions use of the savings account by households.

TABLE II-2

Percent of Savings Withdrawals To Beginning of Year Savings Balance 1966-1972
(Dollars in Billions)

Year	Savings Withdrawals	Beginning of Year Savings Balances	Percent of Savings Withdrawn
1966	$ 40.1	$ 110.4	36.3%
1967	36.2	114.0	31.7
1968	39.2	125.5	31.5
1969	46.7	131.6	35.5
1970	51.2	135.7	37.7
1971	48.4	146.7	33.0
1972	61.3	172.2	35.6

Source: Federal Home Loan Bank System, "Monthly Operating Statement of all FSLIC Insured Associations, 1966-1972".

The four major attributes of the associations asset and liability holdings include: (1) the fact that associations are very dependent on the relative demands for credit in the residential mortgage market as evidenced by the regulatory constraints which govern their permissible operations; (2) the fact that associations bear a significant degree of interest rate risk because of the nature of their asset-liability structure; and (3) the fact that association assets, with the exception of a small proportion of liquid holdings, are relatively unmarketable both because of the fact that a relatively undeveloped secondary market exists for conventional mortgages,

but primarily because it is not possible for associations, due to their low reserve position, to take large capital losses on their mortgages during periods of rising rates; and (4) the fact that the liability structure of associations has been confined to short-term maturities, primarily as a result of the needs reflected in the market place by the household saver.

The Effects of Monetary Instability on Association Performance

Savings and loan associations derive their profits from performing two important functions. One is the assumption of financial risk and the other is the assumption of interest rate risk. By far the most potentially hazardous of these has been interest rate risk.

Interest rate risk may be defined, for our purposes, as the uncertainty concerning the future market value of a fixed return instrument. For the lender, the interest rate risk concerns the probability that he will lend funds with a known rate of return and a known series of cash inflows, but with an unknown market value over the life of the contract. Savings and loan associations profit from the assumption of interest rate risk by borrowing (i.e., offering liabilities to households) in the short-term market and lending in the long-term market. Gurley and Shaw provide a succinct statement of this function.

> "What is the business of financial intermediaries? They lend at one stratum of interest rates and borrow at a lower stratum. They relieve the market of some primary securities and substitute other--indirect securities or financial assets--whose qualities command a higher price. This margin between yields on primary and indirect securities is the intermediaries' compensation for the special services they supply."(2

The assumption of a positive margin between the two interest rate strata by Gurley and Shaw is particularly important for savings and loans.

More pointedly, savings and loans must rely on the probability that the yield curve relevant to the savings and loans supply of and demand for funds will be, on the average, positively-sloped. If this is not the case, the investment media which compete for households' savings balances -- commercial and mutual savings bank deposit rates, and short-term open market investments such as Treasury bills -- will be able to attract deposits away from the associations.

The hazard of assuming interest rate risk by savings and loans has been described by Rueben Kessel as:

> "Converting long-term assets, such as mortgages, into short-term liabilities is not arbitrage. It is not a risk-free undertaking in a world in which future interest rates are not known with certainty. Any uncertainty, however small, about future rates implies that unanticipated changes in interest rates must occur. Given the way that the money and capital market revises its estimates of future interest rates when new knowledge is acquired, the returns--income flows plus capital-value changes--derived from long-term securities are more variable than the returns on short-terms. Returns are more variable for long-terms because of the greater instability in the prices of long-terms which more than offsets the greater yield-to-maturity variability of short-terms. Reasoning symmetrically, the returns on mortgages are more variable than the costs of deposits; deposits have virtually zero term-to-maturity, and hence exhibit less variability in realized returns than mortgages.
>
> The propositions (1) interest rate changes are not perfectly anticipated, and (2) the market revises its estimates of expected future rates in a manner that leads to greater variability in the economic returns associated with holding long as compared with short maturities, imply that savings and loan associations have greater variance in the economic returns on their assets than in the costs of their deposit liabilities. Unanticipated increases in rates produce a fall in the market value of assets that is not offset by a commensurate fall in the value of liabilities. Therefore, equity, which for savings and loan associations is reserves, falls. Converse implications hold for an unanticipated decrease in rates. In summary, savings and loan associations are long on long-term money (mortgage) and short on short-term money

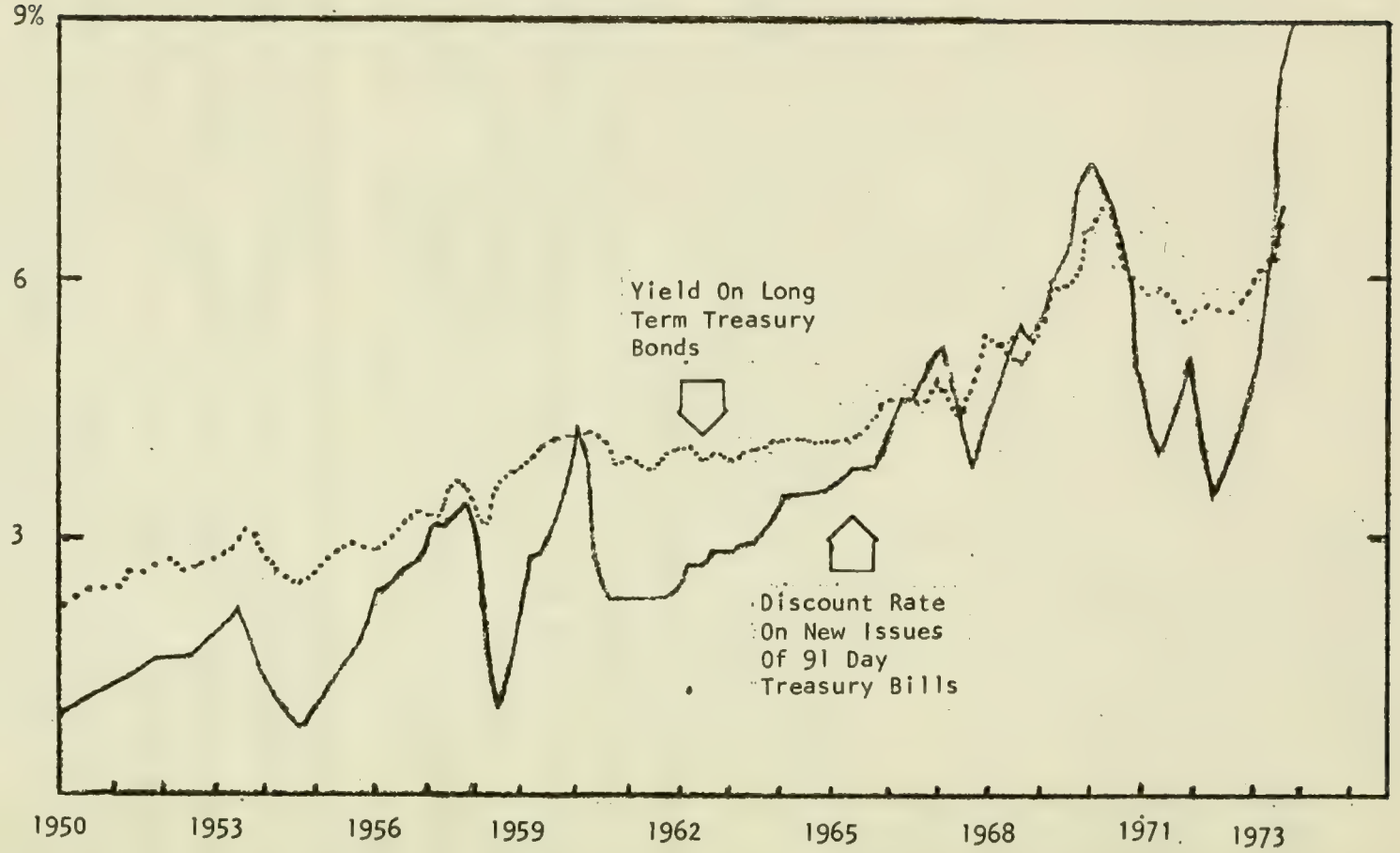
(deposits). Hence, they lose when there is an unanticipated rise in rates and gain when there is a fall."[3]

Prior to the mid-1960's, the assumption of interest rate risk by associations had been a profitable one. During this entire period, with a few exceptions, the level of interest rates in the short-term market, from which associations compete for funds, was below that of the long-term market, the interest rate strata from which associations buy their assets. Moreover, this period was characterized by relative stability in the absolute level of interest rates. As shown in Graph II-1, prior to the mid-1960's short-term rates moves in a narrow range of 0.8% to 4.3% following the Federal Reserve - Treasury accord in 1951, and long-term rates moved in a range of 2.2% to 4.2%. Furthermore, it is not at all surprising that the term structure have a favorable upward slope to it. Namely, short-term rates tended to be well below long-term rates.

During the decade of the 60's the economic and competitive environment in which savings and loans operated underwent significant changes. This marked the beginning of the period when savings and loan associations first experienced the disruptive effects of a dramatic shift in the interest rate structure. This period from 1965 through the present could best be characterized by the periodic use of restrictive monetary policies resulting in tight credit conditions in the financial markets, and interest rate cycles in which rates rose to record levels. The extent of these cycles is clearly reflected in Graph II-1 after 1964. During this later period, short-term rates moved within a range of 3.2% to 9.1%. Also, on three occasions short rates rose well above long-term rates. These periodic rises in rates and shifts in the term structure from one of upward-slope to downward-slope severely taxed the liquidity, growth, and profitability position of the

GRAPH II-1

SHORT AND LONG TERM TREASURY YIELDS 1950 - 1973



Source: U. S. Treasury Department

industry.

It was the first of these periods, in 1966, during which association management first became fully aware of the significant interest rate risk they assume as a result of the inflexibility in their asset-liability structure. The experience of late 1965 and 1966 dramatized the potential size of the interest rate risk assumed by associations as a consequence of their asset-liability structure. In the 1969 and early 1970 and again in mid-1973 a similar situation occurred with comparable results -- profits fell, liquidity positions neared critical levels, and savings growth declined sharply.

The imposition of rate ceilings on savings and loan associations and the continuation of constraining ceilings on commercial banks makes it impossible to evaluate what could have happened to savings and loans during this tight year period had the intermediaries been free to set rates. One would have expected, however, that commercial banks with a shorter term asset portfolio and variable prime rate on their assets, would have been in a better position to raise rates on savings accounts than savings and loans.

It is not surprising that the greatest source of concern of the savings and loan business, having experienced the economic upheavals of the last decade, has centered around the evaluation of the appropriateness of its asset-liability structure. This is with good reason since a secular unexpected rise in the level of interest rates together with a shift of the term structure putting short-term interest rates above long-term rates has put the industry in a critical earnings, profitability and liquidity position.

The Structural Dilemma and the Need for Asset-Liability Restructuring

Clearly there are costs to the savings and loan business and the housing

market and mortgage market of maintaining the constraints on the asset and liability structures of the business. Irwin Friend stated it this way:

> "While the available data are not adequate for assessing the costs of the disruption in the housing and mortgage markets induced by reliance on monetary stringency to curb general inflationary pressures, it is clear that these costs to home purchasers and sellers, to the building industry, and to mortgage lending institutions, are not negligible. The costs to young families and to disadvantaged groups looking for homes may be particularly large. In addition to very real inconveniences to prospective purchasers and sellers, the shift of idle resources obviously is not complete or instantaneous and the operational efficiency of the construction industry may be reduced significantly as a result of major unplanned fluctuations in output. Moreover, the profit requirements of the savings and loan as well as the construction industries may be inflated by these fluctuations in the volume of their business. For the savings and loan industry, a prolonged period of inflationary pressure contained mainly by monetary policy and rising interest rates could be disastrous." (underlining mine) [14]

Certainly the savings and loan business would prefer to trade any potential asset-liability freedom for a return to a period of economic and monetary stability that existed prior to the early 1960's. Unfortunately, such stability apparently is not within our grasp without risking the far more hazardous result of experiencing excessive rates of unemployment, under-utilization of resources, and general economic stagnation. The tendency, however, during the last decade has not been to chance such a situation developing. Rather, most authorities would prefer to err on the side of high employment and inflation. This expectation was clearly articulated in the Report of the Commission on Financial Structure and Regulations when they wrote:

> "Projections of economic conditions in the United States indicate a continued shortage of capital. When problems of inflation arise, monetary policy will be used to restrict the availability of credit. Occasional periods of high interest rates will occur in the future. A con-

> tinuation of the constraints that force deposit thrift institutions to invest their funds in long-term assets will cause a repetition of their recent experience."(5

It is interesting to note that this statement was written less than two years before tight money appeared on the scene again in mid-1973. Without the assurance that long-term monetary stability will reappear on the horizon, it has become clear to many academic, governmental, and industry spokesmen that the potential costs of too high a degree of specialization in the mortgage market have become excessive. To correct for these intermittent periods of monetary stress, some restructuring of the asset and liability powers of savings and loans has been deemed necessary. This was the solution arrived by the Commission on Financial Structure and Regulations when they wrote:

> "Without changes in their operations, there is serious question about the ability of deposit thrift institutions to survive."(6

Before that Irwin Friend concluded:

> "Another lesson both of the 1966 crunch and the protracted inflation of recent years is the need for introducing greater flexibility into the asset-liability structure of savings and loan associations (and other specialized savings intermediaries) to the extent that this can be done without undermining housing policy objectives . . .
>
> A more promising approach seems to be a judicious modification of the present asset-liability structure of specialized intermediaries to alleviate the problems associated with specialization; but this does not preclude further measures toward integration of specialized and diversified deposit intermediaries at some later time."(7

The current structure of the savings and loan business makes it very clear that it is not sufficiently adaptable to perform optimally in the environment of monetary and economic instability such as that experienced in this nation during the last decade. A major problem with the business

structure concerns the very high degree of specialization in long-term residential mortgages. With such a high proportion of assets in mortgages, associations are forced to assume a high degree of interest rate risk. Although the introduction of long-term savings certificates has helped to relieve this situation somewhat, the performance of the business in 1969-1970 and mid-1973, suggests that some alteration of the asset structure is also required. Certainly as long as the general economy is subject to recurring periods of protracted inflation, followed by monetary restraint, the costs of too high a degree of specialization in the mortgage market by associations will be too much to bear for the business and the mortgage and housing market at large.

16

III. LEGAL AND OPERATIONAL PROBLEMS OF MORTGAGE MARKET SPECIALIZATION

In addition to the inflexibility of the savings and loan asset-liability structure, these institutions have traditionally had to bear high financial costs which result from various legal, regulatory, social, political and competitive constraints on their operations. Such legal barriers as state usury ceilings on mortgage rates, regulatory and political prohibitions on the use of variable rate mortgages and competitive and social forces that have liberalized mortgage lending terms to the consumer have resulted in substantial financial costs and a loss of management flexibility for the specialized mortgage lending intermediary.

This section will review several of these facits of mortgage investment as they effect the financial performance of savings and loan associations.

Usury Ceilings on Mortgage Rates

In a number of states usury ceilings, dictating the maximum rates which can be charged on residential mortgages, have existed, in one form or another, for many years. The use of such ceilings is based on the proposition that in insufficiently competitive markets the establishment of maximum interest rate ceilings will prevent the most extreme form of borrower exploitation. The justification for such ceilings may have been sound many years ago when many markets had an insufficiently developed mortgage lending business. Today, however, the competition between savings and loans, commercial banks and mutual savings banks, all of whom participate in the mortgage market, have made the mortgage market one of the most competitive of any of the credit markets.

The effect of usury ceilings on those associations located in states where the maximum rates are set below the free market can be devastating. Rueben Kessel, writing in the Friend Study, explained it this way:

> "Whether or not these ceilings have any economic effects depends upon the level of interest rates in the market and the ability of mortgagees and mortgagors to transact business legally at economic rates in excess of ceiling rates.
>
> From the point of view of a financial institution, effective ceilings induce it to invest either in media not subject to the ceiling, or buy mortgages in the secondary market which are typically originated out of State, or buy participations in our-of-state mortgages. Even if a financial institution were willing to forgo higher yields available in the secondary market in order to lend locally at ceiling rates, it would lose its share of the market to institutions that did not forgo higher secondary market rates."(8

The problem with Kessel's statement is that while associations in usury states do tend to invest in out-of-state mortgages during periods when the ceiling rates are set below free market, there exist regulatory constraints which prohibit associations from placing a large proportion of assets in other than locally-originated mortgages. As a result, associations in these states are forced to originate and hold a larger volume of mortgages with commensurately low yields. This in the long-run causes them to lose a substantial share of the savings market since they are unable to compete for savings at the market rates required. Moreover, during periods of tight money these institutions, already in a weakened condition, are susceptible to significant financial stress that has on occasion resulted in near financial insolvency and forced merger.

Those mortgage lenders who have greater asset freedom, however, do not face similarly hazardous results. Commercial banks and mutual savings banks, for example, are able to divert their funds into non-mortgage assets such

as corporate bonds, business loans, and consumer credit.

The high cost of subjecting associations to usury ceilings has caused the Friend Study to conclude:

> "Rate ceilings on mortgages are not generally desirable since normally it is not possible to set them at competitive rates, with the result that they seem to have the effect more of restricting and distorting supply than of protecting borrowers."(9

More recently, the Presidential Commission on Financial Structure and Regulation recommended that:

> "States remove statutory ceilings on allowable interest rates on residential mortgages, unreasonable restrictions on loan-to-value ratios for all lenders and, as required, remove legal impediments to the use of variable rate mortgages."(10

Effects of Consumer Oriented Loan Terms on Associations

As discussed in the previous section, the asset-liability structure of savings and loan associations is such that during protracted rises in interest rates the portfolio yields for associations does not increase fast enough to match the increases in savings rates required to remain competitive. One would expect this phenomena to work in reverse during periods of declining interest rates. Unfortunately for associations, however, declines in the interest rate structure create substantially smaller "windfall gains" when compared to the capital losses incurred during periods of rising rates. This is so because few associations have legal authority or the competitive ability to write mortgages with restricting prepayment penalties. For example, the Federal Home Loan Bank Board's Regulation 545.6-12 stipulates that a mortgage on an owner occupied house must permit a prepayment up to 20% per year on the unpaid principle without penalty and then precludes a penalty greater than 6 months interest on the amount of prepayment exceed-

TABLE III-1

Estimated Prepayments
(Millions of Dollars)

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Estimated Mortgage Loans Outstanding Assuming No Prepayments	92.0	102.3	115.5	131.5	151.0	169.4	186.5	195.6	207.3	220.3	232.2
Less: Actual Mortgage Loans Outstanding	53.1	60.1	68.8	78.8	90.9	101.3	110.3	114.4	121.8	130.8	140.2
Equals: Cumulative Prepayments	38.9	42.2	46.6	52.8	60.0	68.1	76.2	81.1	85.5	89.5	92.0
Estimated Prepayments During Year	4.0	3.3	4.4	6.1	7.3	8.1	8.1	4.9	4.4	4.0	2.5
Net Savings Receipts	6.6	7.6	8.7	9.4	11.1	10.6	8.5	3.6	10.7	7.5	4.0
Estimated Contractual Prepayments	3.7	4.1	4.5	5.1	5.7	6.5	7.2	7.9	8.4	9.0	9.9

Source: United States Savings and Loan League.

ing 80% of the unpaid balance. As a result, during periods of declining mortgage rates a larger percentage of loans made during earlier periods at higher than current rates are prepaid or refinanced.

Table III-I shows the results of an analysis designed to estimate mortgage loan prepayments, that portion of the repayment of principle of mortgage debt loans resulting from earlier than contracted payments on the mortgages or refinancing.[1] These payments tend to be an extremely volatile source of funds to mortgage lenders. Notice that during periods of falling mortgage rates, such as from 1960-1965, when the FHA secondary market rate fell from 6.8% to 5.46%, the volume of prepayments rose substantially. The opposite also took place from 1965 through 1969, a period of rapidly rising interest rates. During this period, the FHA rate rose from 5.46% to 8.26% while the estimated prepayments declined from $8.0 billion to $2.5 billion.

These data confirm the contention that savings and loan associations find their earnings and liquidity problems exaggerated as a result of their generally liberal lending policies, i.e., generally small prepayment penalties on mortgages and the lack of acceleration clauses (a clause requiring refinancing of the mortgage if the property changes hands) on many of their mortgages. The result is that during periods of rising mortgage rates, when association performance would be enhanced by early pay-off of the older, generally lower-rate loans made in earlier periods, they find that these loans remain on the books closer to maturity. When mortgage rates decline, however, and associations stand to reap wind-fall profits from their large holding of mortgages made at higher than current rates, they find that the average life of these loans diminishes significantly and many of their higher rate loans are refinanced or prepaid.

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The fact that the estimated prepayment figure has been close in magnitude to the savings receipt figure, also shown, indicates the importance of prepayments as a source of cash for associations. Again, prepayment experience tends to exaggerate the liquidity and earnings problems and, thus, savings and loan performance by declining during periods of peak mortgage rates and loan demand and rising during periods of relatively low mortgage rates and ample credit.

The traditional practice for associations to make mortgage loans which are callable at any time by the borrower, with generally small or no penalty at all, creates significant earnings problems for the business during periods of economic instability, such as we have experienced during the last decade. Moreover, consumer resistance to greatly increasing prepayment penalties has been substantial. This has resulted in ever greater costs for the business of residential market mortgage specialization in an unstable economic environment.

Legal and Social Constraints Against the Use of Variable Rate Mortgages

The variable rate mortgage has been suggested as a means of providing the thrift institution with the ability to adjust the earnings on its loan portfolio as its cost of funds varies. As its name implies, a variable rate mortgage is a mortgage whose stated rate of interest varies as economic conditions, and hence interest rates in general, vary.

The introduction and wide-spread use of the variable rate contract would not cure all of the problems of the thrift industry. If the contract were a cure-all, competition would eventually dilute its advantages. It does, however, provide a method for transferring a large portion of the

interest rate risk from the institution to other parties. This, in itself, would be a major step forward in relieving the recognized imbalance in the asset and liability structures of thrift institutions. Also, the variable rate contract would not be expected to relieve the business of the problems of overspecialization in an asset whose yield may fall in relation to others. Nevertheless, it could provide institutions with some protection from cyclical and secular increases in interest rates such as were experienced during the 1965-1973 period. It is for this contingency that the variable rate concept has been proposed and recommended.

Despite the salient features of the variable rate mortgage, there is little use of the contract today by the savings and loan business. This is primarily the result of legal, regulatory, social and political constraints against using this contract. Very recently, in fact, the Federal Home Loan Bank Board refrained from issuing regulations specifically permitting the use of variable rate mortgages by savings and loans, in part, because of the operational problems of writing such contracts but primarily because of the social and political pressures brought upon them against its use. Moreover, the FHA and VA mortgage contracts, which compete with conventional mortgages, do not permit the variable rate alternative. This adds to the difficulties of the institution that would like to offer this contract to his customers.

Although the variable rate contract has been viewed skeptically by many groups, its use can be easily justified. First, it is clear that the borrower has been the major beneficiary of the interest rate risk born by the lender. He profits through the appreciation on his property during periods of inflation and rising interest rates. In addition, during periods of declining interest rates he is able to terminate his mortgage through

refinancing and thereby limit his exposure to any significant portion of this risk.

A second justification for the use of the variable rate mortgage relates to the differing abilities of thrift institution managers to discern the magnitude of future interest rate risk. An institution which has significantly different expectations from the consensus regarding the degree of interest rate risk which will be realized in the future has few options available to protect itself. This is particularly true under the present legal and tax constraints which force the institution to invest heavily in long-term mortgage investments. The variable rate contract provides one method for increasing the flexibility of management and spreading some portion of the interest rate risk to another party.

In a recent independent study done for the Federal Home Loan Mortgage Corporation, George M. von Furstenberg wrote:

> "Once price level risks are recognized as substantial in any economy, many forms of financing are bound to change. For instance, level premium permanent life policies and endowment policies with fixed fact amount will eventually become obsolete. Similarly, private pension plans will have to provide for cost-of-living adjustments or escalator clauses of the kind now proposed for the social security program.
>
> The introduction of variable rate mortgages would change this prospect no matter what the future course of inflation. They represent an imaginative form of institutional adaption to changing competitive conditions in the capital markets. The desire for self-help rather than implicit subsidies ultimately extracted from policyholders, pensioners, or the general public motivates the plea for the introduction of variable rate mortgages. If only fixed rate mortgages are used, mortgagors and mortgagees are forced to speculate on the long-run course of prices in an environment of almost complete uncertainty--and with potentially seriously inequitable results. If expected outcomes can only be forecast within wide confidence intervals, the borrower or the lender will normally be disappointed by actual events. Under conditions of significant inflation, the two parties

> will therefore be averse to fixed-rate contracting and require premiums which restrict both the demand and the supply of mortgage credit."(12

Clearly the social and legal constraints against using the variable rate contract on residential mortgages has helped to exacerbate the liquidity and earnings problems of associations. Having only the fixed-rate mortgage alternative has perpetuated the problems resulting from the asset-liability imbalance of the business, thus, increasing the exposure to the serious effect of excessive interest rate risk.

Summary

The legal, regulatory, and social and political environment in which savings and loans operate has resulted in significant financial costs and the loss of important management options for the business. Usury laws in various states, together with geographical limitations on the amount of loans that can be held out of state by an association, have subjected large numbers of institutions to significant financial stresses. Regulatory and competitive constraints, forcing the business to write their mortgage contracts with prepayment penalties and other clauses that allow the borrower to renegotiate or refinance his loan during periods of falling interest rates with minimal penalties, have also substantially reduced the ability of the industry to receive capital gains during periods of falling rates. Yet, the industry must pay the price of large capital losses and liquidity problems during periods of rising rates. Finally, legal, regulatory, and social and political constraints, which have minimized the use of variable rate mortgages for most of the business, have exacerbated the liquidity and earnings problems of the industry during periods of protracted rises in interest rates.

IV. THE UNEXPECTED COSTS OF GOVERNMENTAL INTERVENTION IN THE MORTGAGE MARKET

During the last several decades, providing adequate shelter for the American people has remained a top social priority item for our government. During the depression of the 1930's, for example, there was as much significant legislation passed effecting the housing and mortgage markets as during any period of American history. But even with the many changes in the techniques of housing finance and the growth of the institutions servicing the mortgage market prompted by the 1930 legislation, the role of the federal government in the mortgage and housing markets has increased and even accelerated in recent years.

The 1949 Housing Act called for "...a decent home and suitable living environment for every American family." This statement has been reiterated many times since 1949 and in some sense was responsible for the important 1968 Housing and Urban Development Act and subsequent legislation which has significantly effected the institutions servicing the mortgage market. This section will review the tremendous efforts made by the federal government to provide a decent home for every American family. To do so, an analysis will be made of changes which have occurred in the form that governmental subsidies have taken in the housing area. We will do this since it is our contention that this shift in subsidy method has had a profound detrimental impact on the viability of specialized mortgage lending institutions serving the mortgage market.

The Governments Role in the Mortgage Market During the Post War Period

The Housing Act of 1949 clearly articulated the high social priority

attached to housing in the United States. Throughout most of the post-war decade until the late 60's, however, the relative impact of the government's housing activities was relatively innocuous. Although many housing acts were passed, most of them dealt minor changes such as liberalizing FHA and VA insurance and guarantee programs and increasing the activities of the Federal National Mortgage Association (FNMA).

Probably the most important reason for the relative lack of government activity during this period was the fact that housing did not seem to have any critical problems. The economy during this period was characterized by relative price stability and relatively high rates of unemployment as compared to current social goals. This resulted in an upward sloping term structure which lasted for almost an entire two decades. As a consequence, the private mortgage lending sector, made up primarily of thrift institutions, found it easy to attract funds in the short-term sector and make long-term loans in the mortgage market at very attractive spreads. It was during this period that savings and loan associations became the fastest growing financial intermediary and the most profitable, a condition which continued through the early 60's. It was not until the mid-60's that the war induced inflationary pressures and high employment acted to restrict the ability of private financial institutions to meet the needs of mortgage demanders.

The decline in housing starts in 1966, although the fourth notable cyclical decline in the post-war period, was by far the most serious. This, combined with the liquidity and earnings problems of thrift institutions, prompted Congress to develop new ways to achieve their housing goals. The Housing and Urban Development Act of 1968 was a landmark piece of legislation and suggested the magnitude of the commitment that Congress was willing

to extend in the housing area. This act provided for: (1) two important new programs to subsidize mortgage interest for low and moderate income families; (2) the establishment of special high risk insurance fund for certain FHA mortgages; (3) the conversion of FNMA to privately owned corporation; (4) the establishment of the Government National Mortgage Corporation, and (5) the authorization for the Farmers Home Administration to make direct and insured loans available to low and moderate income families in rural areas and small towns with interest rates as low as 1%.

Subsequent to the Housing and Urban Development Act of 1968, additional legislation has been passed to increase the federal government's and its agencies role in the mortgage lending area. These include the Housing and Urban Development Act of 1969, which created the Government National Mortgage Association's pass-through security programs; the Emergency Housing Finance Act of 1970, which created the Federal Home Loan Mortgage Corporation, provided the authority for FNMA to purchase conventional mortgages, and created the Super-Tandem Plan to enable FHA rates to be subsidized at below market rates, and the Rural Development Act of 1972, which liberalized the Farmers Home Administration mortgage lending powers through the elimination of the debt limit on FmHA notes, and the authority for FmHA to make non-residential loans in cities with populations up to 50,000.

This series of legislative changes since 1968 has already grossly altered the structure of the mortgage market and has the potential of more significantly affecting it in the future. As a result of this legislation, demanders of mortgage credit have found the supply of credit greatly expanded through the increased capability of these government agencies to tap the money and credit markets at preferred rates and to make virtually an unlimited

volume of loans available to low and moderate income stratas of American families and through the conventional loan purchase programs upper income families.

The importance of the preferred borrowing position of the federal agencies should not be underestimated. These agencies have a definite borrowing advantage over the private sector which is evidenced in Graph IV-1 showing the relationship between the privately issued notes and debentures of several of our country's largest finance companies, the securities of several Federal agencies, and the risk-free Treasury security rate. The graphs represent two periods, one of generally "easy money" (April 1, 1971) when the term structure had a significantly positive slope and "a period of monetary constraint" (January 1, 1970) when the term structure had a significantly negative slope.

Although the negatively sloped term structure is usually associated with booming economic conditions and the relatively low perceived default risk, the spread between the privately issued securities and the government agency rates average nearly 100 basis points, except for the short-term maturities where the premium was 25 to 50 basis points. The premium paid by federal agencies over the Treasury, however, remained near or below 50 basis points throughout most of the maturity range.

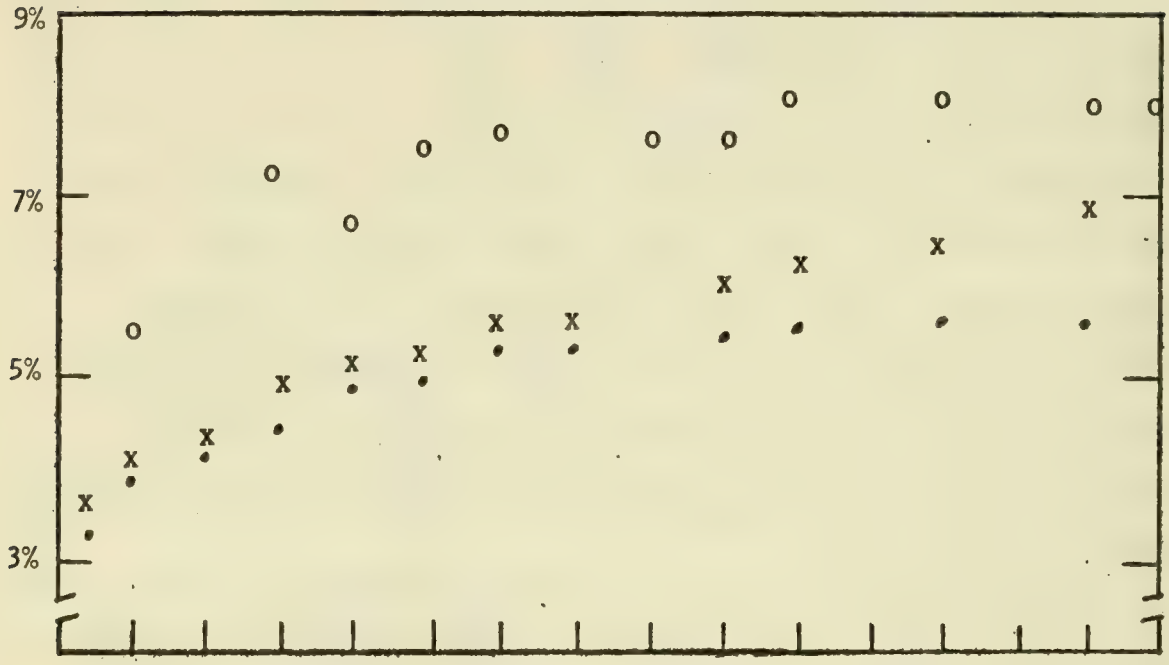
The advantage of the agencies becomes even more apparent during easy money periods, however. Here the additional interest paid by the private sector ranged from 125 to 200 basis points. Also, the premium paid by the federal agency over the Treasury falls to about 25 basis points over most of the maturity range.

The techniques used by the federal government to enhance the supply of mortgage credit are varied, but in each case the recent federal efforts

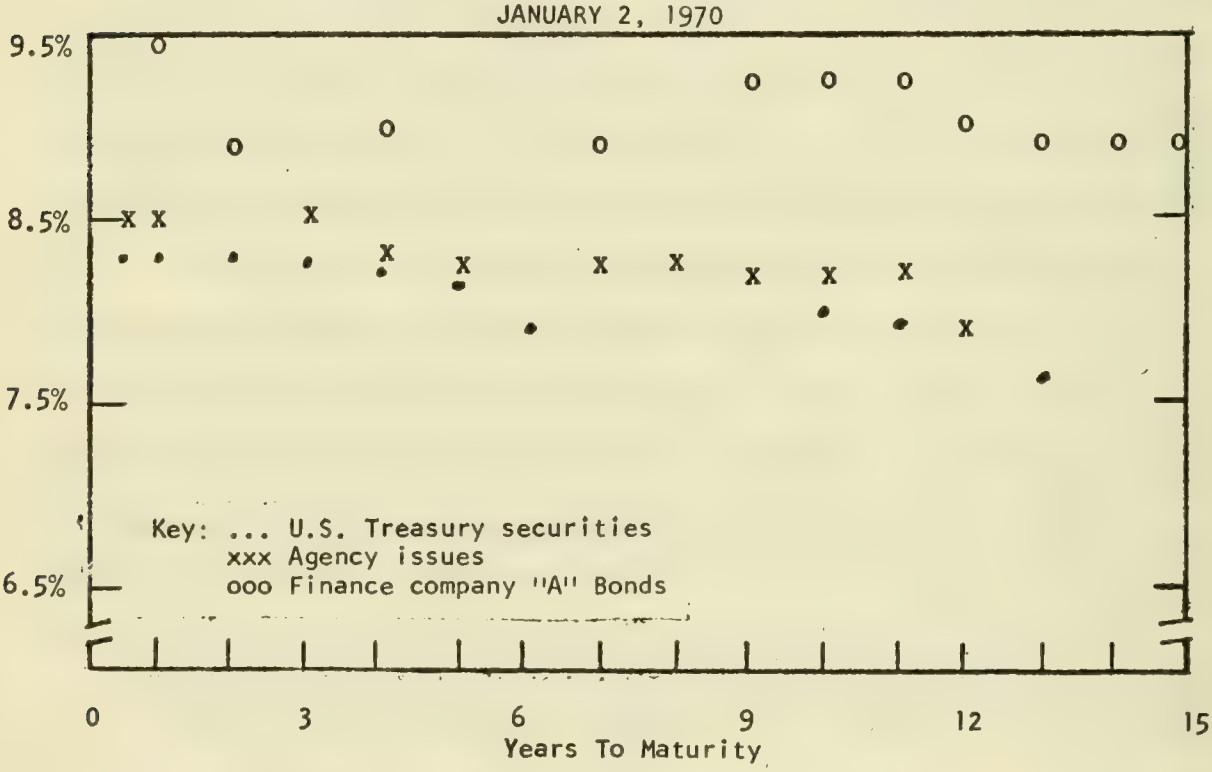
GRAPH IV-I

BOND YIELD CURVES
(Yield To Maturity)

APRIL 1, 1971



JANUARY 2, 1970



Source: "The Bond Buyer" and Standard and Poor's Bond Guide.

involve some sort of direct or indirect social subsidy to the home buyer. Basically, these subsidies fall into four categories:

(1) The use of the federal guarantee and insurance to lower the default risk premium on mortgages,

(2) The use of the preferred borrowing position of the federal agencies to increase the quantity of mortgage credit available at favorable rates,

(3) The use of the "full faith and credit" provisions, generally associated with treasury securities, to increase the volume of mortgage credit available at favorable rates,

(4) The use of direct federal subsidy to lower the mortgage interest costs to home buyers and renters.

The effects of this significant increase in federal activity in support of the mortgage market is quickly seen by glancing at Table IV-1 which shows the growth since 1960 of several of the major federal agencies and government sponsored enterprises. Of particular interest is the fact that the largest growth in federal support has occurred in the last three years, a period in which the private sector has been in its best position to meet the needs of mortgage demanders. This recent growth in federal involvement suggests a significant question relating to whether these agency activities are having harmful external side effects on private mortgage lending institutions. Furthermore, their growth poses a question of how much direct and indirect social subsidy should be granted to mortgage borrowers and, equally important, the form that the subsidy should take.

In this regard, it is our contention that recent legislative efforts to support housing goals have resulted in social costs which are both enor-

TABLE IV-1
Securities of Federal Agencies and Government-Sponsored Enterprises Which Support Housing
(Millions of Dollars, June 30 of each year)

	1960	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
FEDERAL AGENCIES											
Defense Dept.	1572	2183	2112	2036	1951	1863	1775	1683	1588	1119	1023
Farmers Home Admin.											
Rural Housing Insur.	-	-	-	112	262	238	204	194	165	160	160
FmHA Insured Notes	-	-	122	461	887	1232	1813	3093	4341	6036	6438
FHA Debentures	139	570	441	492	548	577	517	487	454	383	411
HUD											
Office of the Sec'y	-	-	-	680	1820	2433	2109	1146	741	701	701
GNMA Participations	797	200	787	1475	1891	1897	1707	1626	1433	1352	1304
Veterans Admin.	-	100	975	1175	1704	1885	1749	1650	1543	1295	1234
FHLB Bonds	1255	4757	6310	4588	4702	5524	9914	7344	6533	9011	12279
GOVERNMENT-SPONSORED ENTERPRISES											
FHLMC Mortgage-backed Bonds	-		-	-	-	-	-	315	1315	1790	3290
FNMA											
Debentures	2285	1797	3269	4079	5887	8076	12765	14146	17710	21139	24209
Mortgage-Backed Bonds	-	-	-	-	-	-	400	850	850	450	450
Pass-Through Securities Issued by Private Lenders	-	-	-	-	-	-	40	2238	4484	8550	11821
TOTAL SECURITIES Which Support Housing	6048	9607	14014	15098	19652	23725	32993	34772	41157	51986	63320
TOTAL SECURITIES Excluding FHLB Bonds	4793	4850	7704	10510	14950	18201	23079	27428	34624	42975	51041

SOURCE: U.S. Department of Treasury, Treasury Bulletin, Appendix to the Budget of the United States, years 1973 and 1974.

mous and at the same time extremely difficult to measure because of the indirect nature of many of these subsidies. Furthermore, it is our contention that because of the form that these subsidies take, the federal involvement is having serious external side effects on the long-run growth and earnings prospects of private specialized mortgage lenders. In order to verify this contention, we will develop a short scenario of how these recent government efforts have and may continue to serve to crowd out the private sector.

Effects of Government Programs to Support Housing on Private Specialized Mortgage Lending Institutions

If it is true that recent federal efforts in support of residential housing are having harmful external effects on the viability of private mortgage lending institutions, then we would anticipate that these efforts will tend to reflect themselves in changes in the form of the mortgage instrument used, in the relative rates earned on the mortgage loan, in changes in the relative holdings of mortgage assets by various institutions and in the aggregate level of federal agency credit used to support the mortgage market. Before we determine whether these changes have indeed occurred, it is necessary for us to show how the form of the direct and indirect subsidy programs used by the federal government can significantly alter the distribution of benefits, inherent in any subsidy programs between the various suppliers of mortgage credit and the home buyers, the ultimate benefactor of the subsidy.

Prior to the last few years, the three major subsidy methods used by the federal government to support the mortgage markets were:

(1) The ability given to Federal Home Loan Bank member

associations to tap the money and credit market for funds to expand their lending operations at preferred market interest rates,

(2) The provision given to specialized mortgage lending thrift institutions (in return for constraints which forced these firms to specialize in mortgage assets) of important tax advantages which greatly lowered the effective tax rate of these firms, and

(3) An indirect subsidy in the form of mortgage guarantee and insurance provided to a specific income strata of the mortgage borrowing public.

It can be shown that the effects of these types of subsidies will also benefit specialized mortgage lending institutions. As is the case in any housing subsidy, its benefits are divided, depending on the relative elasticities of the supply and demand curves for mortgage credit, between the producer - the mortgage lender-and the consumer - the mortgage borrower. As in the case of the first two of these major subsidies - the ability for Federal Home Loan Bank member associations to borrow and the tax advantages given to specialized mortgage borrowers - the subsidy flows through the mortgage producer to the borrowing consumer. Thus, the thrift institutions have historically benefited along with the borrower.

The major exception to this was the widespread use of FHA insurance and VA guarantee mortgages. The wide use of these instruments, as mentioned above, lead to increased standardization of the mortgage contract, resulting in increased average maturities and loan-to-value ratios on loans offered by all mortgage lenders. This tended to increase the interest rate risk exposure of thrift institutions. In addition, the high degree of standardiza-

tion of these mortgages gave apparent advantages to mortgage banking companies who specialize in the origination and servicing of this unique type of mortgage instrument. Insofar as the use of these instruments resulted in an indirect subsidy to the borrower, this subsidy did not aid the thrift institutions, but instead flowed through the mortgage banking companies, who play the predominant role in their origination and servicing.

The period of the late 60's, however, witnessed significant changes in the form of subsidies provided by the federal government and as a result a redistribution of their benefits among the various producer and consumers of mortgage credit. In 1962 and again 1968, as shown in Table IV-2 for example, the federal tax law regarding thrift institutions was altered, thus eliminating most of the federal tax subsidy which flowed through the thrift institutions to the mortgage borrowers. As a consequence, one of the major types of indirect government subsidy to mortgage market borrowers and its resulting benefits to thrift institutions was significantly diminished.

More importantly, the legislation fostering the growth of FmHA and FMNA and creating the FHLMC, the GNMA pass-through security program, and the government subsidy housing programs also greatly altered the distribution of implicit government subsidies between the various producers and consumers of mortgage credit. This occurred because each of these subsidy programs operate rather independently from the group of specialized mortgage lending institutions. In other words, these programs work to provide subsidies which do not flow through private mortgage lending institutions, but instead flow around them. Thus, as a result of these new programs, the private mortgage lenders do not now receive any portion of the subsidy benefits which are normally divided between producer and consumer. Further, the change in

TABLE IV-2

Average Effective Tax Rate of FHLB Member
Savings and Loan Associations
1950-1972
(Dollars in Thousands)

Year	Net Income After Dividends But Before Taxes (1)	Federal Income Taxes Paid (2)	Average Effective Tax Rate (1-2)
1950	$ 164,817	$ -0-	0.0%
1951	178,390	-0-	0.0%
1952	194,404	-0-	0.2%
1953	236,498	4,783	2.0%
1954	289,567	5,509	2.0%
1955	360,962	5,505	1.5%
1956	391,800	5,070	1.3%
1957	232,037	4,225	1.8%
1958	481,880	5,625	1.2%
1959	555,787	5,346	1.0%
1960	563,703	4,160	0.7%
1961	727,334	3,758	0.5%
1962	832,189	3,330	0.4%
1963	775,759	93,598	12.1%
1964	950,148	132,787	14.0%
1965	963,369	135,366	14.1%
1966	759,569	98,376	13.0%
1967	736,952	95,488	11.4%
1968	1,040,936	150,083	14.4%
1969	1,267,268	195,975	15.5%
1970	1,165,920	216,152	18.5%
1971	1,748,108	359,847	20.6%
1972*	2,504,000	545,000	21.8%

NOTE: The significant step increases in the average effective tax rates for the years 1963 and 1968 reflect respectively, the 1962 and 1968 changes in the tax law.

*Estimated

SOURCE: Federal Home Loan Bank Board, Combined Financial Statements (Washington, D. C.), various issues.

thrift institution taxation has eliminated most of the benefits they had in the past.

Government involvement in the mortgage and housing markets during the last several years has not been limited to the federal government. State governments, as well, have significantly escalated their role in the subsidization of housing through the formation of state housing agencies. These agencies, whose activities are implicitly subsidized by the federal government through the provision given them to issue tax-exempt securities, have been growing rapidly to play a large role in the financing of residential housing.

As recently as 1968, there were only 9 state housing agencies, most of which had not been in business long enough to have any impact on their local housing markets. As of mid-1972, however, the number of state-sponsored agencies with powers to enter the housing and mortgage markets had blossomed to 29, representing 24 states. Table IV-3 shows a list of the debt outstanding for those agencies established and gives a good indication of the extensive growth of their activities in a short span of a few years.

The creation of new governmental and quasi-governmental institutions and the growth of existing ones during the last few years raises the more important question of whether or not private specialized mortgage lending thrift institutions can compete with these new institutions for both assets and funds. This further suggests that these specialized thrift institutions will find it increasingly difficult to compete for funds against intermediaries who have broader asset diversification authority.

Although answering this question is not easy, some evidence concerning the problems that specialized mortgage lending intermediaries are having as a result of this new found competition is available. This evidence comes

TABLE IV-3

Financing Operations of State Housing Agencies
(Dollars in Millions)

	Established	Authorized Bonding Capacity	Outstanding
Alaska Housing Finance Corp.	1971	Unlimited	70.4
Connecticut Housing Finance Authority	1969	Unlimited	26.2
Delaware State Housing Authority	1968	Unlimited	None
Georgia Development Authority for Housing Finance	1972	Unlimited	None
Hawaii Housing Authority	1970	60	None
Idaho Housing Agency	1972	Unlimited	None
Illinois Housing Development Authority	1967	500	55.0
Kentucky Housing Development Corp.	1972	205	None
Maine Housing Authority	1969	Unlimited	19.7
Maryland Dept. of Economic & Community Development:			
Community Development Admin.	1972	Unlimited	None
Div. of Home Financing	1971	10	None
Maryland Housing Fund	1970	7	None
Massachusetts Housing Finance Agency	1966	1000	21.6
Michigan State Housing Development Authority	1966	800	90.0
Minnesota Housing Finance Agency	1971	150	None
Missouri Housing Development Commission	1969	100	12.9
New Jersey			
Housing Finance Agency	1967	Unlimited	106.5
Mortgage Finance Agency	1970	Unlimited	91.2
New York			
Mortgage Agency	1970	750	N/A
State Housing Finance Agency	1960	2500	939.1
State Urban Development Corp.	1968	1500	397.5
North Carolina Housing Corp.	1969	200	None
Ohio Housing Development Board	1972	N/A	None
Pennsylvania Housing Agency	1971	Unlimited	None
South Carolina Housing Authority	1971	N/A	None
Vermont Home Mortgage Credit Agency	1968	30	None
Virginia Housing Development Authority	1972	Unlimited	None
West Virginia Housing Development Fund	1968	130	12.2
Wisconsin Housing Finance Authority	1972	150	None

SOURCES: Various reports of the state agencies and Standard & Poor's "Municipal Bond Selector".

in the form of empirical substantiation of several of the changes we would expect to occur as a result of federal intervention. These include changes in:

(1) the relative holding of mortgage loans among the various institutions;

(2) the relative rates they earn on these assets as compared to other competing debt instruments; and

(3) the susceptibility of thrift institutions to tight money conditions.

Each of these expected changes will be considered separately below.

Shift in Relative Holding of Mortgage Loans by Various Lenders

We would anticipate that if federal government intervention is making important inroads into the mortgage market that holdings of mortgage loans would become concentrated in two basic groups. These are the specialized mortgage lenders and the government agencies. This would occur because the specialized mortgage lenders must hold mortgages, having few options, while the more diversified lenders would tend to move out of the mortgage market in response to higher returns available elsewhere. Table IV-4 substantiates this pattern. It shows the distribution among various lenders of total mortgage loans outstanding.

The table indicates that over the last several decades the holding of total mortgages have increasingly become concentrated in the hands of thrift institutions and the government agencies, while other lenders either hold significantly less of the total or have unchanged positions. Even the mutual savings banks, who may purchase corporate bonds and several other

TABLE IV-4

HOLDING OF TOTAL RESIDENTIAL MORTGAGES BY VARIOUS LENDERS
(Dollars in Billions)

	1950-60 Average		1960-70 Average		1971	
	Dollars	% of Total Mortgages	Dollars	% of Total Mortgages	Dollars	% of Total Mortgages
RESIDENTIAL MORTGAGES HELD BY:						
Savings & Loans	$ 33,715	31.1%	$102,914	39.9%	$159,841	42.7%
Commercial Banks	15,985	14.7%	33,667	13.0%	52,004	13.9%
Mutual Savings Banks	16,303	15.0%	39,707	15.4%	52,937	14.1%
Insurance Companies	21,769	20.0%	37,646	14.6%	52,120	13.9%
US Gov't & FNMA	4,381	4.0%	12,144	4.7%	31,106	8.3%
Other Lenders	16,573	15.2%	31,999	12.4%	26,680	7.1%
TOTAL	108,726	100.0%	258,077	100.0%	374,688	100.0%

SOURCE: Flow of Funds, Federal Reserve Board.

assets, have not increased their relative share, but have shifted to other assets in recent years. These trends are also substantiated when one looks at the percent of home mortgage loans to total assets of the respective lenders.

Shift in Relative Rates
Earned on Mortgage Assets

Probably the most significant structural change which has occurred in the mortgage market has been the substantial decline in mortgage loan interest rates relative to other long-term debt instruments. Table IV-5 shows the average effective interest rate on conventional home loans, the average rate of AAA corporate bonds and the spread between the two rates from mid-1965 to mid-1973. Of particular interest here is the substantial decline in the spread the mortgage rates have had over corporate bond rates during this short span of years.

Although mortgage rates have declined relative to corporate bonds rates since the late 40's, the decline has accelerated in recent years. This decline can be attributed to two causes. First, the ex ante risk of a mortgage loan may have been improperly evaluated on the high side, causing the return earned on mortgages to be higher than justified given the default losses which occurred. No doubt this hypothesis has merit and accounts for some portion of the decline. The second reason, however, is probably that the tremendous efforts made by the federal government to attract funds for mortgages through the use of the preferred borrowing position of the government and its agencies has resulted in mortgage credit becoming available at lower rates than would have been the case without this indirect subsidy.

The significance of this structural change in rate spreads cannot be

TABLE IV-5

Levels and Spreads Between the Conventional Mortgage Rate and AAA Corporate Bond Rate*
(1965-1973)

YEAR AND QUARTER	EFFECTIVE MORTGAGE RATE ON HOME LOANS	TRIPLE AAA CORP. BOND RATE	SPREAD BETWEEN MORTGAGE RATE AND CORP. RATE
1965 III	5.76%	4.50%	1.26%
1965 IV	5.78	4.61	1.17
1966 I	5.85	4.81	1.04
1966 II	6.03	5.00	1.03
1966 III	6.17	5.32	.85
1966 IV	6.39	5.38	1.01
1967 I	6.43	5.12	1.31
1967 II	6.31	5.26	1.05
1967 III	6.35	5.62	.73
1967 IV	6.45	6.03	.42
1968 I	6.59	6.13	.46
1968 II	6.86	6.25	.61
1968 III	7.22	6.08	1.14
1968 IV	7.22	6.24	.98
1969 I	6.59	6.13	.46
1969 II	6.86	6.25	.61
1969 III	7.22	6.08	1.14
1969 IV	7.22	6.24	.98
1970 I	8.41	7.89	.52
1970 II	8.45	8.14	.31
1970 III	8.50	8.22	.28
1970 IV	8.44	7.91	.53
1971 I	7.92	7.22	.70
1971 II	7.49	7.47	.02
1971 III	7.74	7.56	.18
1971 IV	7.80	7.30	.50
1972 I	7.64	7.23	.41
1972 II	7.53	7.28	.25
1972 III	7.57	7.21	.36
1972 IV	7.64	7.14	.50
1973 I	7.69	7.22	.47
1973 II	7.73	7.31	.42

*Rates shown are quarterly averages of monthly figures.

Sources: Federal Home Loan Bank Board; Federal Reserve Board.

underestimated. Since specialized mortgage lenders intermediaries must compete for funds against agencies, with their preferred borrowing positions, and with other intermediaries with their broader asset acquisition authorities, it is clear that if they do not earn a commensurate return on their assets they will find it increasingly impossible to grow and generate adequate profits.(13 The evidence here seems to suggest that competition from federal agencies is indeed having harmful external side effects on the private specialized mortgage lending intermediary.

Role of Federal Agencies Accelerates

Additional evidence that federal involvement in the mortgage market is posing a serious competitive threat to other lenders is verified by their sheer growth. As shown earlier in Table IV-I, the advantage inherent in the agencies preferred borrowing position has prompted them to grow even when adequate funds are available from the private sector. During 1971 and 1972 the thrift institutions had high liquidity and record savings flows. Nonetheless, these agencies continued to borrow and supply a record volume of funds to the mortgage market, in most cases, competing for the same assets that thrift institutions were attempting to acquire. The evidence here seems to indicate that federal agencies will continue to provide an increasing proportion of mortgage credit, either directly or indirectly. Their major advantage being their ability to borrow funds in the money and capital markets at preferred rates in order to make funds available to the mortgage market. Since only one of the agencies works in such a way as to benefit thrift institutions, i.e., the FHLB, it is likely that thrift institutions will find it increasingly more difficult to compete for funds and assets at acceptable rates of return.

Thrift Institution Susceptibility to Tight Money

The significant growth in these agencies which have access to the credit markets also presents additional problems to thrift institutions during periods of tight money. Unlike the major depository intermediaries, these agencies have no constraints in the rates they can pay for funds. Consequently, during periods of tight money, they are in a position to out-compete all thrift institutions for funds and mortgage loans. This occurred in 1969 and 1970 when the agencies provided over 30% of the net new funds reaching the mortgage market. Furthermore, they even have the advantage of being able to out-compete many corporate borrowers for funds.

The inherent advantages of the agencies in supporting the mortgage market will probably lead to greater instability of the thrift industry in the future. As money market rates surpass Regulation Q ceilings, thrift institutions will begin to lose money. Then as the agencies move aggressively to meet mortgage demand, the result will be even greater disintermediation pressures on thrift institutions. Borrowing will rise to a high percentage of total liabilities and together the agencies will be the major contributors of new funds to support the mortgage market at the exclusion of the thrift institutions.

Summary

Our review of governmental activities in the mortgage market indicated that important alterations in the techniques used by the government to support the mortgage market have been made during the last decade. Generally speaking, the method of subsidy and support, which consisted of tax and other advantages given to thrift institutions to support housing, has been replaced with a new group of agencies and subsidy methods that operate

independently of the private specialized mortgage lenders. This means that the thrift intermediaries specializing in mortgage loans are receiving far less in benefits to compensate them for the constraints put on their asset and liability structures and the high risk they face in acquiring long-term mortgages with short-term liabilities.

More importantly, recent federal programs to support housing currently pose a significant competitive threat to thrift institutions. This competition is the result of a preferred borrowing position of the agencies and an accelerating trend toward greater standardization of the mortgage. In addition, the more recent move of FNMA and FHLMC to create standardized conventional mortgage contracts has largely resulted in contracts that are very favorable to borrowers, i.e., most lack prepayment penalties and acceleration clauses. These contracts, which will be offered by mortgage bankers among others in the conventional market, pose a type of non-price competition for thrift institutions so long as the secondary market firms are willing to purchase them at favorable rates, a situation which seems quite likely.

To summarize the recent efforts of Congress to limit the exposure of the mortgage market to periodic declines of great amplitude appear on the surface to be successful. The method used, however, has resulted in high direct and indirect costs to society in the form of subsidy. More importantly, however, the form that the government's efforts have taken has largely abandoned the presently operating thrift institutions who must bear the costs in terms of forced specialization. The evidence accumulated during the last few years indicates that thrift institutions will increasingly find it difficult to compete for funds and mortgages against these agencies. Furthermore, it appears that the rates they earn on their new

loan acquisitions, as a result of their competing with these agencies, will not be commensurate with the rates they will have to pay to attract funds from intermediaries with broader powers. Finally, there is cause for concern that during future periods of tight money the thrift industry will find themselves in a more unstable position, where agency efforts to bolster the mortgage market will take its toll in terms of more hazardous disintermediation, liquidity and earnings problems for the thrift industry.

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V. CONCLUSIONS

Dramatic changes in the economic, competitive and political environment within which savings and loan associations operate have prompted serious questions about the advisability of maintaining the historically rigorous constraints on the allowable investment activities of associations. This paper is an attempt to evaluate the costs to the consumer, the savings and loan business and the financial markets in general of restricting the business' investment powers to the mortgage market.

The paper focuses on three major areas of consideration. These include: (1) the question of whether the existing asset-liability structure of the business is sufficiently adaptable to changes in the aggregate economy such as we have experienced in the last decade and the attendant costs of maintaining this structure to the consumer, the housing industry and the financial performance of the savings and loan business; (2) the effect of specific laws and regulations and traditional consumer motivated mortgage financing practices on the financial performance of associations and their ability to serve the public; and (3) the unanticipated side effects of the substantial changes in the form and level of government participation in the mortgage market on the specialized mortgage lending intermediary.

The review of the asset-liability structure of associations indicated quite conclusively that it is not viable in an economic environment of periodic waves of inflation and monetary restraint. The major problem with the business' structure is its high degree of specialization in the mortgage market. This has resulted in the institution being forced to assume excessive interest rate risk because of its insufficient reserve structure and asset inflexibility. As a consequence, the business is periodically unable to op-

timally service the mortgage and the over-the-counter savings markets. Moreover, the best informed opinion has held that the economic problems of the last decade were not expected to be isolated cases. Quite the contrary, the best expectation is that periodic problems of inflation will be with us for the foreseeable future and that restraining monetary policies will be called upon frequently to arrest these pressures. Under such a set of conditions, the primary recommendation of many academic, government, and industry spokesmen was for relaxation of the asset constraints currently imposed on the business.

In addition to the problems caused by structural imbalance of the business' balance sheet, certain legal, regulatory and socially sanctioned practices and prohibitions have imposed significant financial costs of the business as well as resulted in the loss of important managerial options. The use of usury laws in various states, together with geographical limitations on the amount of loans that can be held out-of-state by an association, have subjected large numbers of institutions to significant financial stresses during periods of rising interest rates. Regulatory and competitive constraints, forcing the business to write their mortgage contracts with liberal prepayment penalties and other clauses that allow the borrower to renegotiate or refinance his loan during periods of falling interest rates with minimal penalties, have also substantially reduced the ability of the industry to enhance their profits during periods of generally falling rates. Nevertheless, the business has had to pay a large price in the form of large capital losses and liquidity problems during periods of rising rates. Finally, legal, regulatory, and social and political constraints, which have minimized, and in some cases prohibited, the use of variable rate mortgages for most of the business, has exacerbated the liquidity and earnings problems of the in-

dustry during periods of protracted rises in interest rates.

Finally, our analysis of the impact of a changing role of government in the mortgage market suggested significant and potential hazardous effects on the private specialized mortgage lending intermediaries. To summarize, the method of governmental subsidy and support, which consisted of tax and other advantages given to thrift institutions to support housing, has been largely replaced with a new group of agencies and subsidy methods that operate independently of the private specialized mortgage lenders. This means that the thrift intermediaries specializing in mortgage loans are receiving far less in benefits to compensate them for the constraints put on their asset and liability structures and the high risk they face in acquiring long-term mortgages with short-term liabilities.

More importantly, recent federal programs to support housing currently pose a significant competitive threat to thrift institutions. This competition is the result of a preferred borrowing position of the agencies and an accelerating trend towards greater standardization of the mortgage. One observed and particularly harmful effect of these government mortgage lending activities has been to produce a sustained and substantial relative decline in mortgage rates as compared to other long-term interest rates. The decline in these rates has acted to exacerbate the earnings problem of savings and loans and seriously weaken their ability to compete for savings against more diversified intermediaries.

The evidence and analysis presented in this paper strongly suggests that some restructuring of the activities of savings and loans is necessary. The suggestion has been made repeatedly that a partial solution to the problems discussed in this paper would be to liberalize the asset and liability freedom of savings and loan assets. Such a solution follows directly from

this analysis and appears highly preferable. The costs to the consumer, the business, and the financial markets generally of maintaining the rigorous constraints of association activities have been high. Moreover, the best estimate of future economic conditions suggests that the problems of protracted inflation and intermittent periods of monetary restraint of the last decade will be repeated. Unless appropriate alteration of the structure of associations takes place, the costs may well be too high to bear.

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FOOTNOTES

1. Large portions of this paper were adapted from the author's doctoral dissertation: Kenneth J. Thygerson, "The Effect of Government Housing and Mortgage Credit Programs on Savings and Loan Associations" (unpublished doctoral thesis, Northwestern University, 1973), passim.
2. John G. Gurley and Edward S. Shaw, "Financial Intermediaries and the Savings-Investment Process", Journal of Finance, XI (May 1956), p. 259.
3. Reuben A. Kessel, "The Allocation of Mortgage Funds", Vol. II, Study of the Savings and Loan Industry, (Federal Home Loan Bank Board, July 1969), pp. 661-662.
4. Irwin Friend, "Summary and Recommendations", Vol. I, Study of the Savings and Loan Industry, (Federal Home Loan Bank Board, July 1969), pp. 7-8.
5. The Report of the President's Commission on Financial Structure and Regulation, Reed O. Hunt, Chairman, (U.S. Government Printing Office, December 1971), p. 27.
6. Ibid., p.27.
7. Irwin Friend, op. cit., p. 15.
8. Ibid.
9. Reuben A. Kessel, op. cit., p. 670.
10. Irwin Friend, op. cit., p. 19.
11. The Report of the President's Commission on Financial Structure and Regulation, op. cit., p. 64.
12. Kenneth J. Thygerson, "Business and Real Estate", Savings and Loan News, XCII, No. 9, (September 1971), pp. 28-29.
13. George M. Von Furstenberg, The Economics of Mortgages with Variable Interest Rates, FHLMC Monograph No. 2, (Washington, D. C.: Federal Home Loan Mortgage Corporation, February 1973), pp. 11-12.

GAS APPLIANCE MANUFACTURERS ASSOCIATION INC.,
Arlington, Va., Aug. 8, 1973.

Hon. JOHN SPARKMAN,
Chairman, Committee on Banking, Housing and Urban Affairs, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for your letter of July 12, 1973, suggesting that I submit a statement for the record in lieu of personally appearing in connection with the consideration by your Committee of S. 1614. I am pleased to do so in behalf of the manufacturers of approximately 95 percent of all of the residential gas appliances and space conditioning equipment produced in the United States.

Our interest in S. 1614 is limited to the language used in Sec. 4(a) which would amend the National Housing Act so as to require a seller to warrant that the dwelling "(A) is constructed in substantial conformity with the plans and specifications . . . , and (B) has no structural or *other defects which could seriously affect the use and livability of the dwelling.*" (Italics supplied.) The warranty would have a duration of three years from the date of conveyance or initial occupancy, whichever first occurs.

In introducing S. 1614, Senator Percy offered no comments as to the types of defects, other than structural, if any, which could seriously affect the use and livability of the dwelling. It is the lack of certainty as to the meaning to be associated with this particular provision that concerns me.

I believe it is reasonable, however, to conclude that the intention of the bill is to embrace all defects of a substantial nature which are derived from the manner of the performance by the seller of his contractual obligations to the mortgagor.

These would, I presume, relate to either a failure to conform with plans or specs, or a structural defect not covered by the plans or specs but which would be covered by accepted building practices.

If this is correct, the provision in question should not be interpreted as embracing appliances or comfort space conditioning equipment which are invariably accompanied by a manufacturer's warranty. To require a seller to give an appliance or equipment warranty duplicating or different in nature and scope from a manufacturer's warranty is unnecessary, and would in effect make a third party responsible for the contractual responsibilities of a manufacturer. While I feel reasonably certain that this is not intended, the language is not sufficiently precise as to make that intention certain and is therefore discomforting.

It is my understanding that the Department of Housing and Urban Development has interpreted warranty provisions of existing housing statutes so as to limit the coverage of warranties to plans and specs non-conformance and to other structural defects, a precedent which seems soundly based.

My recommendation is that Section 3 of S. 1614 be amended by deleting the words "or other" on line 15 of page 37 and that the Committee Report, if one is issued, make clear that the bill is not intended to require a seller to warrant appliances and equipment which are otherwise warranted by a manufacturer to a mortgagor.

Your consideration of the foregoing will be sincerely appreciated, and if a further expansion of the views expressed above would be helpful please let me know.

Sincerely,

WYNNE A. STEVENS, Jr.,
Director of Legislative Services.

U.S. SENATE,
Washington, D.C., July 16, 1973.

Hon. JOHN SPARKMAN,
Chairman, Committee on Banking, Housing and Urban Affairs, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I am enclosing a copy of a letter from a constituent, Mr. Paul A. Flynn, City Manager, City of Providence, Rhode Island, in which

he states some pertinent and timely views on the bill, S. 1743, the Better Communities Act, on which hearings are now being held before your Subcommittee on Housing.

I ask that the Subcommittee take Mr. Flynn's suggestions under consideration in finalizing S. 1743, and that you make his letter a part of the hearing record.

Warm regards.

Sincerely,

CLAIBORNE PELL.

CITY OF EAST PROVIDENCE,
Providence, R.I., July 9, 1973.

Hon. CLAIBORNE PELL,
Old Senate Office Building,
Washington, D.C.

HON. SENATOR PELL: Allow me one moment this morning, on behalf of the citizens of East Providence, to discuss with you the proposed "Better Communities Act." The Act, as presently working its way through the House and Senate, appears to be a mechanism to cut back funds on the programs and policies that we have grown to know as the human side of government.

In the past, urban renewal, neighborhood development, relocation and the other programs that had as their main thrust the betterment of living conditions for our unfortunate citizens, now find themselves being held in disrepute by the administration. It would seem that regardless of the name or the alphabetical acronym that the various programs are given their main thrust should be people and the betterment of people and not the squandering of funds with administration hoopla. I do not believe that anyone would suggest that all the programs were ideally conceived or thoughtfully carried out, but much good has been accomplished that without the programs could never have happened.

Therefore, with the betterment of life for our citizens foremost in mind and on behalf of the citizens of East Providence, I would ask you to give serious heartfelt concern towards the passage of some kind of act which will apparently replace the various categorical grants of the past. It is our citizens that we have dedicated our life and talent to and it is to this end that the new "Better Communities Act" should address itself.

Thanking you for your consideration and waiting ready to assist in whatever way possible, I am

Very truly yours,

PAUL A. FLYNN,
City Manager.

STATEMENT OF PETE V. DOMENICI, U.S. SENATOR FROM THE STATE OF NEW MEXICO

Mr. Chairman, it is my custom, when important bills are considered before this body and time permits, to request comments from those in my home state who are experts on the matter under consideration.

Accordingly, I have sought the advice of New Mexico experts on S. 1743, the Better Communities Act. I would like to share their views with you so each member of this committee may be aware of them.

The opinions in question are those of the members of the Local Government Needs Committee of the New Mexico State Legislature, expressed to me by its chairman, Representative Raymond Sanchez; and of the executive director of the New Mexico Municipal League, Mr. Frank Coppler.

For the sake of brevity, I shall combine their opinions into a single statement. Of course, I shall also add some observations of my own.

The first problem we discern with the bill in its present form is its peremptory exclusion of all cities of less than 50,000 population. The choice of this arbitrary cut-off point has greater than average significance for New Mexicans because in one fell swoop it excludes every city in our state but one—Albuquerque.

Naturally we feel the Senate should weigh the advantages and disadvantages of this exclusion most seriously. If it is included, all cities in our state except Albuquerque must look to the Rural Development Act of 1972 for aid—and it may be as long as 18 more months before that Act is fully implemented and accepting applications for funds.

Even though the "hold harmless" clause in the bill will protect for five years those smaller cities which have Urban Renewal or Model Cities programs, fund-will end in five years whether their programs are completed or not. In our state the decline in funds, even with this protective clause, is dramatic: from $15.1 million in the first year to $4 million in the fifth, when only Albuquerque will be eligible.

Further, those who studied this bill at my request point out that its list of acceptable uses for special revenue sharing funds is unduly restrictive. They propose that the aim of this portion of the bill be achieved simply by providing that the funds may be used *for any purpose authorized by local law* except for eligible activities under the general revenue sharing act. This ingenious solution would have the effect of making general revenue sharing and special revenue sharing exactly complementary—just as the Better Communities Act and the Rural Development Act should be.

Somewhat along the same line, my observers suggest most strongly that the provisions for reporting, accounting, auditing and restrictions in this special revenue sharing act should all be handled in the same way as, or at least in a manner consistent with, the general revenue sharing act.

To demonstrate that this "tracking" is desirable, let me quote some strong language from one of the communications I have had on this subject:

"There is no problem more maddening, perplexing and sometimes unsolvable than the one of conflicting laws or regulations on the same subject. Nothing is more dismaying than to have two audits, two reports, two plans or two trips to Washington when one would suffice."

In sum, there are real difficulties in this act for New Mexico municipalities—and, I believe, for those in many other parts of this great land.

I would urge the members of this committee to consider these observations as they consider this bill. I reserve my right to offer such floor amendments as I believe may be necessary to correct what I consider its inequities or to improve its application in my state and in all other states.

U.S. SENATE,
Washington, D.C., Aug. 21, 1973.

Hon. JOHN SPARKMAN,
Chairman, Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed is correspondence I received from the Mayor of Pocatello, Idaho, in which he relates possible difficulties his city may have in obtaining funds under the Better Communities Act currently pending before your Committee. After looking over this proposed legislation, I, too, share his concern that certain provisions in the bill would be discriminatory to cities in marginal status, qualifying neither for urban nor rural aid.

Thus, I ask that your Committee give full consideration to the case that Mayor Roskelley makes on behalf of Pocatello as I feel it is representative of how many marginal towns across the Nation will be affected by this bill. I also ask that this letter be made a part of the Committee Hearing Record.

With best wishes,
Sincerely,

FRANK CHURCH.

Enclosure.

CITY OF POCATELLO,
Pocatello, Idaho, July 25, 1973.

Hon. FRANK CHURCH,
Hon. JAMES MCCLURE,
U.S. Senators,
Washington, D.C.

GENTLEMEN: The purpose of this letter is to present the views of the City of Pocatello concerning the Administration's proposed legislation known as the Better Communities Act. We note testimony is now being presented to the subcommittee on Housing and Urban Affairs of the Senate committee on Banking, Housing and Urban Affairs.

The city supports the local determination feature of the Better Communities Act and the other variations of the so called Special Revenue Sharing Acts

previously proposed. Because of low assessed valuation the city's revenue position was a major community problem that was solved to a significant degree by the General Revenue Sharing Act of 1972.

However, we see two critical deficiencies in the proposed Better Communities Act. First, the 50,000 population criterion for participation leaves Pocatello out as well as many other cities in the area. Second, it is our interpretation of the act that funding levels are established for the future based on previous HUD projects, namely Urban Renewal and Model Cities which makes very little money available to cities that did not participate in Urban Renewal or Neighborhood Development.

Pocatello has an official 1970 census of 40,036. This means under the act Pocatello would participate only in the non-pass through or state administered discretionary funds and as will be mentioned later this would mean little money and would be an administrative and political nightmare for state government.

It should be noted that in Region 10 encompassing the states of Alaska, Idaho, Oregon and Washington, there are 3,631,586 people living in cities of more than 2,500 population. There are no cities over 50,000 in Alaska, one in Idaho, three in Oregon, and five in Washington and they encompass 43% of the region's *urban* population of 1,572,903 people. The other 57% are in cities under 50,000 and this represents over 2,000,000 (2,058,683) who will not benefit directly from the act. It should be noted that 718,826 live in cities under 10,000 and over 2,500; the Rural Development Act when funded will do many of the things for these cities that the Better Communities Act envisions for cities over 50,000 population.

Of the 217 cities in the Region over 2,500 population only nine or 4% will be directly affected by the 50,000 category presented in the Better Communities Act. In Idaho only one city out of the 37 cities over 2,500 population will directly benefit. Some 143 cities or 65% has available the Rural Development Act, but there are 65 cities or 31% which have neither. It would appear appropriate either the Rural Development Act or better yet the Better Communities Act should be expanded to cover the population ranges over 10,000 and under 50,000.

To further explain the second concern, that of future funding levels for cities, the act uses HUD programs committed between fiscal years 1968 and 1972 as the basis for funding. Here the local determination principal may as in Pocatello's case work to the disadvantage of the city.

Pocatello in the period covered by fiscal years 1968–1972 did not have either Urban Renewal or Neighborhood Development programs. Under the present funding level of the proposed act 6.9 million dollars would come to the State of Idaho. Because Boise, Lewiston, Twin Falls, and Idaho Falls and Urban Renewal or Neighborhood Development projects the act establishes a basic funding level for those cities, not only to fund current commitments to these projects, but it is our interpretation that this would be the basis to fund our activities yet to be decided by these cities. It was fortunate that these cities selected these particular programs, but for those cities that did not the Better Communities Act will mean very little. For example it would appear the State of Idaho will have but $166,000 to distribute to all the other cities and counties in the State. No Governor or Legislature even in a state with as few cities and counties as Idaho would want or should have the responsibility for dividing up that few of dollars when the results would not be significant.

In Pocatello during the base period of fiscal 1968–1972 the citizens chose to bond themselves for over one million dollars for street improvements and fire protection facilities. This of course was a local decision, but it would appear a million dollars for Urban Renewal would have in terms of the Better Communities Act of 1973 been a much better choice, but of course no one knew or guessed the implication of that local decision.

The City did choose to select a HUD project for water improvements, but after the base fiscal year period and again it appears water and sewer grants are one of the HUD programs apparently not included in the funding level established for the next several years.

Pocatello was also a victim of the current HUD program freeze. Housing authority money was frozen within what was stated later to be a week from application approval. The city's Workable Program was recently certified for another two year period developed in preparation for a renewal project in the core area. Code enforcement efforts and local funds were committed for a hous-

ing rehabilitation program, but this program is included in the Better Communities Act.

Certainly the so-called hold harmless features of the act should fund existing projects previously approved by HUD, but if we have interpreted correctly to use the funding level established in past years for only two grant programs, Urban Renewal and Neighborhood Development is a major deficiency of the Better Communities Act. In recent testimony before the Senate sub-committee Secretary Lynn of Housing and Urban Development did state the basis for distributing funds on past experience would be for a two year period only. It would again be our contention that the hold harmless provision should be only for those committed projects.

In summary, cities of a population under 50,000 to 10,000 are orphans under the Better Communities Act and second the funding level for certain cities that had or have two HUD programs give such cities a community development resource advantage that cannot be met by cities who by local determination felt that community priorities were not Urban Renewal or Neighborhood Development.

The backbone of Federal-City relations for the next decade may well be represented by this act or something close to it. Your attention to the points presented would be appreciated.

Sincerely,

F. W. ROSKELLEY,
Mayor.
CHARLES W. MOSS,
City Manager.

U.S. SENATE,
Washington, D.C., August 17, 1973.

MEMORANDUM

To: Senator Sparkman.
From: Senator Gravel.
Subject: Community development legislation.

I strongly support the Housing Subcommittee's reevaluation of community development programs. These programs were developed to meet specific needs of communities that are faced with a myriad of problems. Some have been very effective, while others have wasted taxpayers' money. However, the problems still exist and justify continued Federal assistance.

One of the best ways to make community development funds more efficient and effective would be to increase local decision-making in deciding the use of such funds. I therefore support efforts to replace some of the categorical programs with a block-grant or revenue sharing approach. However, I am deeply concerned about methods that might be used to allocate funds under such programs, particularly the approach proposed by the Administration in the "Better Communities Act."

Community development programs funded by the Department of Housing and Urban Development should not be restricted to helping only large, urban metropolises. Many small urban centers and towns also need assistance. The funding allocation formula proposed in the "Better Communities Act" would result in our turning our backs on small towns until they become large urban metropolises with commensurate problems. We must help them now, before it is too late, and before we must solve major problems with a continued massive commitment of funds. Perhaps a better name for the "Better Communities Act" would be the "Bigger Communities Act."

One of the most important aspects of our economic system is that, exclusive of government where decisions are not determined by the market, funds flow to the most efficient use. The market "automatically" functions to insure the best use of capital determined by consumer preference. In allocating its funds, Congress must be careful in order to not subsidize inefficiency. However, setting up a permanent program which discriminates in favor of large cities over small does just that.

Let me explain this reasoning. Ideally, the cost of state and local government services and the cost of maintaining a viable, healthy community should be borne by that community. The costs of living there should equal the benefits or one

should move to another community where they do. This system of free choice is disrupted when part of the costs of living in a community are paid indirectly by a third party such as the Federal government. Not only does this result in a misallocation of funds as one group of communities subsidizes another, but it also results in a weakening of the incentive to move out of the community. Thus instead of solving a problem or lowering the costs of living in a community, which might be solved in part by migration, the problem is aggravated. I firmly believe that small communities should not subsidize the added costs of living in large urban centers.

Basic to the above reasoning is the assumption that subsidies are permanent. When this assumption is removed, there is another justification for Federal expenditures—to help eradicate problems that have arisen as a result of neglect. Many community development problems are a result of inadequate planning and deterioration over time for which it is too late to collect from those that benefited from not paying the costs of adequate maintenance at the time or for which it is unfair to make them pay the total amount of a social cost that was not recognized previously. Government must step in to assist in solving the problem, but there must be adequate planning and controls to assure that this is the case in which many cities have found themselves today, and this is one of the major reasons that I support community development programs.

The problem, however, is not unique to large, urban centers alone. Small towns have them also. While the problems may be larger in the larger cities because of their size, it is important to remember that the smaller towns must solve their "smaller" problems from a smaller tax base. Small towns need community development assistance. This is particularly important for small towns that are growing. Planning and building public facilities for future growth requires money, and a small town may not be able to finance facilities that are needed and will be needed to handle a larger population. They should build a water and sewer treatment plant that has enough capacity to handle population increases, but they may not be able to afford it. A small town should plan ahead to provide adequate parks, but they may not be able to afford that either. Federal assistance is needed and justified if they are not to turn into the inner city slums of tomorrow.

Thus any community development program should not discriminate against any communities because of population size. The effects of such discrimination could be disastrous for many of our small towns. My own state, Alaska, serves as a good example of what can happen if there is discrimination. Alaska has many cities in need of community development assistance. We have some of the poorest towns in the country, small Eskimo and Indian villages in need of adequate sewerage disposal facilities. We have small fishing towns, that by U.S. standards not only have a slum, but are a slum. The Department of Housing and Urban Development, in recognition of the problems in Alaska, is spending over $4 million a year for community development assistance. This may not seem like a lot compared to other areas of the country where one city may be getting more than our entire state, but the funds are sorely needed.

The Department of Housing and Urban Development has finally responded to my request of four months ago and supplied me with their five year projection of how much funding would go to Alaska under the "Better Communities Act." In the first year, with a full hold-harmless provision Alaska would get $4.4 million. By the fifth year, when the hold-harmless provision has expired. Alaska would receive only $996,000. Seven cities which would be allocated $3.6 million in the first entitlement year would have no allocation in the fifth year, but would be competing with the rest of the cities in Alaska for only $187,000 of discretionary money allocated to the state for statewide use. I am unalterably opposed to this approach to community development revenue sharing—which only provides assistance to the "better" communities.

I would also like to call attention to a provision in the State and Local Fiscal Assistance Act of 1972, which established the general revenue sharing program. Section 106, in recognition of the higher cost of living in Alaska, provided for a cost of living adjustment for the noncontiguous states. This should certainly be included in any block-grant or revenue sharing program for community development assistance. It is particularly important for financing the added costs of construction work in Alaska. The latest BLS Urban Family Budget Study shows that the cost of living in Anchorage, Alaska is 50% higher than the U.S. urban average for the lower budget. The cost of living in rural areas, for which data is not available, is even higher.

STATEMENT OF THE AMERICAN JEWISH CONGRESS

The American Jewish Congress welcomes this opportunity to present to this Committee its views on S. 1743, the proposed "Better Communities Act," which represents one aspect of the Administration's special revenue sharing program.

The American Jewish Congress is an organization of American Jews formed in part "to help secure and maintain . . . equality of opportunity . . . to safeguard the civil, political, economic and religious rights of Jews everywhere" and "to help preserve and extend the democratic way of life." In recent years, along with many other civic organizations, it has been increasingly concerned about the deterioration of the core areas of the cities of our country, about the decline in both the quantity and quality of housing available to lower-income families and about the confinement of such families in the core city areas. It has been concerned also with the impact of these developments on minority group families. We believe that the security of all Americans is threatened as long as these developments continue unchecked.

Accordingly, we have supported measures designed to deal with these problems, particularly through the use of the powers of the Federal Government. In this statement, we discuss S. 1743 from that point of view.

THE ADMINISTRATION'S APPROACH TO HOUSING AND COMMUNITY DEVELOPMENT

The revenue sharing provisions embodied in S. 1743 cannot be evaluated properly without considering the Administration's approach to housing and community development generally, and the impact it has already had on existing programs. The American Jewish Congress believes that the budget proposals submitted this year by the Administration, together with the moratorium on further commitments for subsidized housing which it has ordered, are having a profoundly harmful effect on the national housing program and particularly on the effort to end the shame of urban slums. It is essential to halt further damage as soon as possible.

The Administration has justified these moves in part on the ground that existing housing programs are faulty. The shortcomings of these programs, however, are not so gross as to justify a meat-ax approach—an approach that invites disaster. What is to be done with the blocks of rubble in cities all over the country, cleared for housing programs that have now been halted? These blocks have offered thousands of families a hope that they would some day acquire decent, safe and sanitary housing. Now they are being told that the rubble will remain rubble.

We agree that the working of the national housing program must be studied and that its faults must be corrected. For example, it is by no means certain that direct subsidies are the best way of obtaining housing for low- and moderate-income families, either in the cities or in the suburbs. We need to find and attempt new programs and policies that will deal more effectively with the nation's housing problems. There are few signs, however, that such a meaningful review of the housing program is taking place. Even if it is, it is plain that no new housing legislation is to be proposed this year. Meanwhile, the "pipeline" for funds under existing programs has been plugged and, at best, it will take years to catch up on the resulting lag.

The President would replace a number of the most important of the existing housing programs with the revenue sharing arrangement proposed in S. 1743, under which money would be turned over to state and local governments for community development. Assuming adoption of this bill, the money would still not be available before July, 1974. Meanwhile, a number of existing programs have been halted under a presidentially declared "moratorium," effective for up to 18 months starting on January 1, 1973, which bars all new commitments for subsidized housing and a number of other programs. (Lower court decisions uniformly condemning the housing moratorium and other forms of presidential "impoundment" of funds voted by Congress have not so far been accepted as final by the Administration and the moratorium has therefore continued.)

The "Better Communities" bill is one of the four revenue sharing proposals the Administration is making in the areas of community development, education, manpower and law enforcement. It is supposed to take the place of seven Federal grant programs which are to be dropped from the budget—urban renewal, model cities, neighborhood facilities, water and sewer grants, open space, rehabilitation loans and public facilities loans. Under the existing "categorical grant" legislation, these programs are funded for each project after the Federal

Government has found that it complies with standards laid down in Federal laws and regulations. The theory behind the revenue sharing proposal is that the various states and localities will be able to use the money they receive to continue some or all of the terminated programs.

THE SUBSTANTIVE PROVISIONS OF S. 1743

Section 6 of S. 1743 would authorize the appropriation of unspecified sums of five years beginning on July 1, 1974, for the purpose of carrying out its terms. Statements by Administration spokesmen indicate that 2.3 billion dollars will be asked for the first year.

The appropriated funds would be turned over to states and to local governmental units under a complicated formula set forth in Section 7, the details of which have been fully described in other statements to this Committee. The recipients units could use the funds received for any or all of a broad range of purposes set forth in Section 4 under the general heading of "Community Development Activities Eligible for Assistance." These purposes parallel the seven existing Federal grant programs that would be dropped from the budget under the Administration proposals.

It is important to point out (1) that these purposes include many that have no relationship to the urgent problems of urban blight and inadequate housing for the poor, and (2) that the grantees could use all of these funds on any of the stated purposes. Thus, a governmental unit could devote all of its shared revenue to acquisition of property in scenic areas, preservation of historic properties or the construction of pedestrian malls. As long as it operated under the broadly defined concept of "community development," it would be freed of any responsibility to the Federal Government to use the Federally granted money to ameliorate conditions that are generally recognized as being of national concern.

THE THEORY UNDERLYING S. 1743

The "Statement of Findings and Purpose" set forth in Section 2 of the bill makes it clear that its purpose and intended effect is to transfer from the Federal Government to the localities most of the power to regulate the use of Federally-provided housing funds. It insists that Federal operations have been ineffective and declares that community development can best be achieved through local management. The American Jewish Congress submits that these findings betray a gross misunderstanding of the housing problems faced by this nation. They embody an inaccurate assessment of the existing programs and the real needs in the area of housing and community development. And, in our view, they fail to provide a basis for embarking on a program of revenue sharing in housing.

We ask this Committee whether it is prepared to find that, as stated in Paragraph (a) (2) of Section 2, the existing program as a whole "has become an ineffective use of the Federal funds devoted to assistance for community development." Despite many shortcomings that can and should be corrected, is it not true that the Federal Government has been funding valid and vital programs?

This Committee should also examine carefully the assumption made in Paragraph (a) (3) that granting "broad discretion" to local governments would make the funded programs more relevant to the national problem of halting urban blight and housing the underprivileged. We outline below the reasons why we believe that it would have the opposite effect.

Finally, we submit that the present programs, which produce their results through cooperation of Federal and local authority, are not properly described in Paragraph (b) as "inflexible" and we suggest that use of such pejorative terms does not contribute to understanding of our housing problems. Would not programs determined by the unreviewed discretion of local authorities be at least as "inflexible"?

FOR A TRULY FEDERAL HOUSING PROGRAM

The transfer of power proposed in S. 1743 raises the fundamental question whether we are to have a truly Federal housing program or separate programs in each of the states and localities, financed largely by Federal money but operating free of, or with a minimum of, Federal supervision and control. We believe Federal supervision and control are necessary if the nation's most acute needs with respect to housing are to be met. The revenue sharing approach as embodied in S. 1743, however, would probably result in deflection of needed funds from

the core city areas where they are most needed. And there is little reason to hope that dispersion of low-income housing to the suburbs would be encouraged.

Slum clearance and the building of housing for low- and lower-middle-income families still require government support. Without it, the slums will remain slums and the underprivileged will remain unhoused. For good reasons or bad, private capital will not do this job. It has not done it in the past and the recent steady climb in interest rates and scarcity of money strongly suggest that it will be even less able or willing to do it in the future.

Furthermore, we believe that, if we are to end the concentration of minorities and poor in the central cities, we must continue efforts to obtain low- and lower-middle-income housing in suburban areas. This, too, requires the firm establishment and enforcement of Federal guidelines.

Both of these objectives would be seriously threatened under the revenue sharing proposals of S. 1743. Housing for underprivileged groups is unpopular with the majority of taxpayers, whether it is placed downtown, uptown or out of town. Experience teaches us that state and local authorities are far less likely to insist on such housing than the Federal Government. Thus, when the Model Cities program was first set up, only six of the 150 programs submitted by local authorities met the requirements of Federal law designed to insure that the purposes of the statute were being met. *National* criteria and Federal supervision are still needed to insure that whatever funds become available are used to deal realistically and effectively with the *national* problems of slums and ghettoes. At the same time, we believe that provision should be made for meaningful participation by local groups in the devising of programs.

ENFORCEMENT PROVISIONS OF S. 1743

The intent to minimize if not to eliminate Federal action to insure that national needs are dealt with is made clear by the enforcement provisions of S. 1743. Thus, Paragraph (a) of Section 5 would require would-be recipients to file for each fiscal year a "statement of community develpoment objectives and projected use of funds." Paragraph (c) would require recipients to file and make public a report concerning the projects financed under the Act which were started or carried out during each year. These provisions are cast in the most general terms possible and the Section grants no power to the Federal Government to review or pass on the manner in which the money is to be spent or has been spent.

Section 15 of the bill covers remedies for noncompliance with whatever restraints are contained in the program. It would permit, in Paragraph (a)(1), the withholding of funds from an agency conducting programs in violation of the statute.[1] This, of course, is an essential provision.

However, the Section as a whole strongly suggests the use of other procedures. Thus, the balance of Paragraph (a) authorizes use of the far more limited sanction of withholding funds only to the extent that they were misspent. Only the bravest administrator, in the most aggravated case, would be likely to use the broad (and effective) sanction in the face of language permitting milder measures. Furthermore, under Paragraph (b), the Secretary may eschew withholding altogether and simply refer the violation to the Attorney General for the initiation of a civil suit. This process is likely to take so long as to have no restraining effect whatever.

Even more serious, it appears that the Federal Government would not have power, under this bill, to review proposed expenditures in advance to determine whether they fell within the purposes set forth in Section 4, and to withhold the funds if they did not. Section 5 requires the advance filing of a statement of objectives and proposed use. But there is no provision that grants must be denied if the proposals made in the statement are incongruent, or even totally at odds, with the requirements of Section 4.

Presumably, under the enforcement provisions of Section 15, grants would be withheld if no statement of objectives were filed. It seems, however, that action could not be taken, before the grants were made, if the proposals set forth in the statement were unacceptable. The provisions in Section 15 authorizing

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[1] We note, however, that this paragraph would authorize termination of payments "to such State," although the rest of Section 15, and the bill generally, speaks in terms of "recipients." We suggest that this must be an error. It can hardly be intended that violation by a local unit would require or permit termination of payments throughout the State. But if that is what is meant, then it must be that termination is authorized as to states but not as to local units. We cannot believe that that is intended.

termination or reduction of payments in case of noncompliance would go into operation after the money had been misspent. Moreover, under Paragraph (c), these sanctions could be invoked only under a procedure involving 60 days notice to the offender, followed by court review. Common sense tells us that such a procedure would eliminate Federal restraint except in the most extreme cases of disregard of the law.

RACIAL DISCRIMINATION

We note, further, that the prohibition of discrimination on the basis of race, color, national origin or sex contained in Section 9 is placed under a special limitation. Whereas the Secretary, under Section 15, can act promptly and directly as to other violations, infractions of Section 9 must first be referred to the Governor of the affected state or other chief executive, who must be given a "reasonable period of time," up to 60 days, to secure compliance before Section 15 is invoked. We see no reason why infractions of the anti-bias provision should be treated more gingerly than other infractions.

SUGGESTIONS FOR THE BILL

The American Jewish Congress is not convinced that a persuasive case has been made out for revenue sharing in the area of housing and community development. It is our position, therefore, that the attention of this Committee and of Congress should be devoted not to finding some way to make revenue sharing work but to improving Federal housing programs designed to meet national needs. Recognizing, however, that this Committee may reject that view, and believing that some of the dangers in revenue sharing can be ameliorated, we suggest (1) that the bill be amended to contain a clear statement of national objectives; (2) that Section 5 be changed to insure that the Federal Government has power to disapprove in advance programs that conflict with such national objectives; and (3) that Section 5 be further amended to insure community participation in the preparation of programs. We discuss these three suggestions *seriatim.*

(1) We recommend that the bill contain a clear statement of national housing objectives on such subjects as eradication of slums, settlement patterns, land use and environmental equality. In particular, it should be made clear that significant steps must be taken to provide housing for the poor and to insure dispersal of such housing, particularly to areas where jobs are available. (Similar statements of national objectives have been included in separate pieces of legislation previously enacted by Congress, including the various housing acts.) Applicant communities could then be required to make clear in the statement called for by Section 5 not only how they intend to use the funds they will receive from the Federal Government but also how such use will contribute to, and be consistent with, the achievement of the stated national goals. (We suggest that this Committee consider the possibility that such statements should include whatever use is being made by the community, in the area of housing and community development, of funds received under the general revenue sharing act now in effect.)

(2) It should be made clear in the bill that plans submitted by applicant government agencies must be consistent with the stated national objectives and that they must be rejected if they are not. The purpose of this provision would not be to substitute the judgment of the Federal Government for that of the local agency as to how the funds should be used but solely to insure that national objectives and policies are not ignored, let alone flouted. Such a flexible arrangement could eliminate whatever red tape has built up under the categorical grant programs while guarding against obvious misuse of Federal funds. We believe that these procedures are necessary to insure that local agencies do not disregard their responsibility to deal with the hard problems which have become national in scope.

(3) Section 5 of S. 1743, in its present form, requires publication of a proposed statement of community development objectives 60 days prior to its being cast in final form and requires applicant governmental units to consider any comments on the draft that may be submitted. We believe that more detailed requirements of community participation should be included. At the least, there should be a requirement of a public hearing on the draft statement, at which all interested groups or parties would have opportunity to appear. The bill should also require consultation with interested groups prior to the preparation of the draft statement.

THE HOUSING FREEZE

Finally, even if revenue sharing is adopted, it would not make any money available before July 1, 1974. Meanwhile, the freeze is in effect. Thus, many community development programs are halted as of June 30, 1973 and would not be resumed again nuder revenue sharing before July 1, 1974. We regard it as essential that government aid for building and rehabilitating housing in cities continue while new approaches are being developed.

To stop and wait for new approaches to be fully in place or for communities to act under any special revenue sharing program would be disastrous. The loss in lead time, in a breakdown of the machinery that keeps projected units in the pipeline, etc., etc. will make for a loss of time and units that just will not be made up. In the long run, it will probably add to costs exceeding the savings that are supposed to result from the new approaches. The bill should therefore provide for a phasing-in period with some overlap between existing programs and whatever new national approaches may be proposed, including the policies to be adopted with regard to housing programs by the states and localities using the options that will be available to them under the kinds of arrangements envisaged in the bill.

Aside from the insertion of such a provision in S. 1743, we believe it essential to state our view that the housing moratorium should be terminated at once, without awaiting final determination by the courts of the question of presidential power, and existing housing programs allowed to continue until a substitute has been provided, through the terms of S. 1743 or otherwise.

CONCLUSION

The American Jewish Congress therefore urges this Committee to call for an end to the housing moratorium and continuation at least for the present of existing housing programs, coupled with careful scrutiny of their operations with a view to correcting them where they are faulty and terminating them or replacing them where they are unsound. We hope that it will oppose any reduction in the total amount of money made available in the Federal housing program. With respct to S. 1743, we urge that the need has not been shown for adoption of revenue sharing in the area of housing and community development but that, if any special revenue sharing plan is adopted in that area, it must be drawn so that, together with general revenue sharing, it provides for effective participation by local government in the decision-making process but without allowing local decisions about the use of Federal funds to weaken safeguards designed to insure that funds for housing and community development are used where they are needed most, in accordance with national goals and policies.

Respectfully submitted.

PAUL S. BERGER, *Co-Chairman,*
Commission on Law, Socal Action,
and Urban Affairs.
SEYMOUR MANN, *Chairman,*
Committee on Housing,
American Jewish Congress.

THE LEAGUE OF WOMAN VOTERS OF THE UNITED STATES,
Washington, D.C., Aug. 16, 1973.

Hon. JOHN SPARKMAN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR SPARKMAN: Enclosed is a copy of the statement by the League of Women Voters of the United States on housing and community development legislation pending before your Subcommittee on Housing and Urban Affairs. In general, the League is pleased with the "Housing Act of 1973" (S 2182) and the "Community Development Assistance Act of 1973" (S 1744). Taken together, the two bills should facilitate closer coordination between community development and housing programs and provide more effective federally subsidized housing for people with low incomes.

The statement deals with the broad aspects and goals of the program, rather than with details of the mortgage program revisions. Recommendations are made as to ways to strengthen the programs for people with the lowest incomes,

to insure maximum flexibility for communities and metropolitan areas in placing low- and moderate-income housing and public housing in areas where actual need is greatest, and to create positive incentives for communities to accept such housing.

Attached to the statement are two addenda : a collection of pertinent excerpts from statements and reports to the naional League office from local and state Leagues, and an excerpt from my letter to HUD Secretary Lynn setting forth League housing goals. I respectfully request that the statement and addenda be included in the official hearing record on the housing and community development bills.

Sincerely,

LUCY WILSON BENSON,
President.

STATEMENT OF THE LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

"We have supported the federal leased housing program in Marin, and, in spite of some snags, we know that this program has made a significant contribution towards solving some of the housing problems of the low-moderate income population in our community."

—California

"It is bad enough that these programs—all of which were sorely needed—will be at best delayed, at worst scrapped. What is worse is that we are quickly losing the momentum we have so painstakingly built up bit by bit over three years."

—Illinois

"If action is taken at the federal level within the next six months or so to substitute new programs, the impact of the break (the 18-month moratorium) in continuity may be minimized."

—Connecticut

Members of the League of Women Voters are convinced, from first hand experience, that the federally-assisted housing and community development programs are serving people for whom they are intended—sometimes imperfectly and inadequately, but nonetheless significantly. The League wants the programs continued, expanded, and adequately funded, with closer coordination and greater attention to meeting the social and physical needs of the lowest income groups. Careful adherence to quality standards of construction, efficient and humane management, adequate and timely funding, and increased testing through demonstration programs can, we are convinced, assure more rapid movement toward national goals in housing and community development.

The above-cited quotations are the merest sampling of a continuing stream of reports from state and local Leagues over the nation. In addition to the commitment to special federal programs, the League reports reflect a sharp sense of urgency about the necessity for the federal government to move ahead rapidly with housing and urban development assistance. League members are heartened, therefore, by the fact that this committee began hearings without waiting for the Administration to present its detailed plans for housing programs. In the 92nd Congress, this subcommittee did much significant groundwork and developed a highly commendable bill simplifying and unifying housing and community programs. The League urges the committee to build upon that "head start" and the hearings held thus far this year, and to report legislation at the earliest possible time. We shall be urging the "other body" to move ahead expeditiously as well, because we deem it highly important that the 93rd Congress enact new legislation by the end of this first session.

In April, Mrs. Erwin Hannum testified before this subcommittee on behalf of the League about the impact of the executive-branch moratorium on housing and the cancellation of community development programs. Summaries of a few League reports dramatically illustrated the short- and long-term damage in every section of the country. This recent re-examination by Leagues of housing and community development programs (and reports to the national League office) make it possible for this statement to the subcommittee to be based on new information. The message has come through loud and clear from the *grass roots* that the League position taken in 1968 to support federal programs designed to provide equal opportunity for, and access to, decent housing *still has high mom-*

bership priority. To illustrate that point, a brief addendum of excerpts from League reports and letters is attached.

This statement deals primarily with three bills under consideration: S. 2182—the "Housing Act of 1973", S. 1743—the "Better Communities Act", and S. 1744—the "Community Development Assistance Act of 1973". The League's position centers around the broader provisions and implications of subsidized housing and community development programs, not around details of the proposed simplification of the mortgage system or of technical matters.

We are aware of several other important bills, including: Sen. *McGovern's* Emergency Rural Housing Act" (S. 361), Sen. *Taft's* "Home Preservation Act" (S. 971), Sen. *Brock's* bill to promote improved technology in federally assisted housing (S. 118); Sen. *Percy's* "Home Buyer and Home Protection Act of 1973" (S. 1614), Sen. *Proxmire's* bills to provide direct financing of low- and moderate-income housing under the sections 235 and 236 programs (S. 2169), to require 20 percent of public housing units to be available for large families (S. 2170), to encourage low-rise construction for public and elderly housing (S. 2171), and to provide funds from the Highway Trust Fund for replacement of housing destroyed by highway construction (S. 2172); Sen. *Williams'* bills to provide demonstration programs for direct financing of government loans for low- and moderate-income housing for the elderly (S. 2179), and to provide additional safety and security for occupants of multi-family housing financed by HUD (S. 2180).

A brief statement does not comment on each of these latter bills. In general, however, the League views these bills as commendable in their intent and in that they would help implement national goals. We trust most of the provisions will be incorporated into the bill reported by the subcommittee.

League views reflecta a membership, general public-interest point of view, a concern about the well-being of the overall community, and a specific dedication to alleviating the handicaps resulting from economic and racial deprivation and isolation. Large expenditures of money and resources will be required to realize the national goal of a "decent home in a suitable living environment"for all American. League members are, therefore, working for a re-ordering of national priorities and spending policies within the framework of a reasonable federal budget.

Testimony presented to this subcommittee demonstrates that both the "professional" and "people" interests and viewpoints coincide on major issues and national policy goals. That convergence should give this subcommittee, and the full committee, added encouragement and impetus to move ahead with legislation.

Formulating housing and community development legislation is not easy. Once devised, programs are frequently unpopular because they involve change of physical environment, of social and economic status and patterns. And change shakes up the very tenuous and fragile sense of security and of "place" that is understandably dear to most human beings. Support for low- and moderate-income people is not always easy or popular. The leadership expected of U.S. Senators and of the League is tough and demanding. An example or two will indicate that League members have a keen insight into the difficulties you as leaders and they as citizens share:

"Our feeling is that in Greenwich it is a matter of *attitude* rather than funding which is holding back housing for the low- and middle-income citizens. If the townspeople were willing to accept change, it could be accomplished financially one way or another."

—Connecticut

"Local statistics confirm that some 469 families in Midland are in substandard housing and that available vacant houses [suitable for rehabilitation under the proposed program] exist. We applaud the appointment by the City Council in 1971 of the Midland Housing Authority, and we commend the Authority for taking its charge seriously and developing a program to remedy existing conditions. . . . We implore the Council members and the citizens of Midland to join us in supporting the effort . . . to provide adequate housing for the poor." *Note*: Most other speakers at the hearings pled for concellation of the proposed purchase and rehabilitation of housing for low-income rental purposes. Why? People mentioned detriment to property values, the importance of private ownership, having worked 18-hour days to get where they got, non-working welfare recipients, and subsidized renters who would "drive to work in Cadillacs."

—Texas

On the whole, the League applauds the bill, both the "Revised Housing Act", which includes the Section 402 House Ownership subsidy programs (presently 235) and the Section 502 Multifamily Rental Housing subsidy programs (presently 236), and the "United States Housing Act" which amends the Public Housing of 1937. In the interest of brevity, we limit comments to a few illustrative commendations, recommendations and questions.

Findings, goals and declaration of policy

Committee members may assume a continued pledge to the housing goals adopted by Congress in 1968 and renewed in 1970. The League finds it important, however, to reiterate those findings and goals in view of the recent declaration by the President that the "urban crisis is over" and of the unprecedented executive-branch moratorium on new contracts for subsidized housing and the elimination of categorical community development programs. The Joint Economic Committee of Congress reported earlier this year that "we can expect a total of only about 530,000 subsidized housing starts in the fiscal years 1973, 1974 and 1975, whereas 2,250,000 are necessary to achieve our housing goals. Over this three-year period, the housing programs will therefore be operated at a rate which is approximately 77 percent below their intended level. We do not support such a drastic shift away from the valid national priority of assisting those families who badly need improved housing conditions." [1] Neither does the League support a shift away from national housing goals. Many Leagues report the need for more housing, as can be seen in Addendum #1, and from this quote:

"The Ventura County Housing Element projected a need . . . through 1975 of 12,795 dwelling units for families with incomes less than $7,000. To date (April 1973) there are 2,905 subsidized housing units in the county."

—California

1. Joint Economic Committee, "Housing Subsidies and Housing Policy", March 5, 1973, page 4.

Allocations of housing assistance appropriations

(Chapter I, Sec. 9) The League appreciates the need to develop a simplified system of allotting funds to communities for subsidized home ownership and multifamily rental housing programs. We have some uncertainty, however, as to precisely how and to whom the funds would be allocated under S 2182.

Questions we have include:

With regard to requirement of a three-year housing plan as a condition for receipt of funds by a state, regional body, or unit of local government: We recommend revised language to assure that local units of government cannot avoid a responsibility to provide housing for low- and moderate-income people simply by failure or refusal to draw up such a plan.

We understand that the housing and community development legislation will emerge as one bill, and recommend a firm, but flexible, tying together of funds for both programs—a provision that will provide incentives to encourage an adequate low- and moderate-income housing supply in core-city areas and suburbs alike.

With regard to the allotment formula—60% to metropolitan areas, 30% for non-metropolitan housing and research and demonstration projects, and 10% of each sume to states and regional bodies for use primarily in non-metropolitan areas: the bill seems to provide inadequate assistance for scatter-site housing despite much evidence of the need for low- and moderate-income housing in suburbs to which industry and commercial centers have transferred their operations. The league recommends revised language to assure that the entire 60% of the funds will not go to core-city areas, but rather that commnuities, metropolitan areas and states will have maximum flexibility to plan for housing wherever the actual need is greatest.

Section 402—Home ownership, income levels, counseling

The League supported last year's Senate definition of "lower income" as 90% of the median income of the area, but would also support a revised definition set at 100%. The excluded income allowances seem reasonable [Sec. 402 (K) (1-7)], and the *requirement* that the Secretary of HUD furnish counseling and advice

to new homeowners is a very commendable provision—one which must be funded adequately and administered with maximum efficiency and understanding. [Section 402 (m)] IN THIS CONNECTION, THE LEAGUE SUPPORTS INCLUSION OF LANGUAGE TO PROVIDE FEDERALLY-SUBSIDIZED HOME BUYERS PROTECTION AGAINST SHODDY CONSTRUCTION AND/OR INSPECTION PRACTICES.

Section 502—Multifamily housing rental assistance

The League commends several aspects of these programs, including:

the fact that rental charges are limited to 25% of income at the maximum [Section 502 (f) (1)];

the fact that the HUD Secretary may make additional supplemental payments for 20% of the dwelling units in which tenants cannot afford to pay the 25 % of income in rent [Section 502 (f) (3)]; NOTE: THE LEAGUE WOULD SUPPORT AN INCREASE IN SUPPLEMENTAL ASSISTANCE TO PROVIDE FOR 30% OF SUCH UNITS FOR "VERY LOW-INCOME PEOPLE".

the fact that funds are provided to the HUD Secretary to contract for monitoring and supervision of the management by private sponsors of assisted projects [Sec. 502(m)].

PUBLIC HOUSING ASSISTANCE PROGRAM—CHAPTER II

"Utah was the 49th state to pass enabling legislation for public housing authorities in 1969. The shortage of low-income housing began to surface only a couple of years ago. . . . Last fall the Salt Lake League published a study of the low-income housing situation in Salt Lake City and County. This booklet has been and still is being used to inform officials at all levels of government and other community leaders about the problem.

"Since the end of the legislative session, the Utah Housing Coalition (on which the League has a board member) has been reorganizing with a more stable nonprofit corporate structure. . . . The steering committee and board of directors are hard at work on legislation for the special session of the legislature expected to be called in October. Governor Rampton and leaders of the legislature are aware of the low-income housing problem and the coalition is playing a key role in coordinating efforts to alleviate the situation."

—Utah

Several changes from the current law are commendable, including the fact that new funds would continue to be authorized for public housing construction and rehabilitation. The Sections 402 and 502 housing programs *cannot* provide a sufficient supply or an adequate subsidy to accommodate the needs of the lower-income people. While recognizing the necessity for new design, less crowding together in high-rises or limited areas of cities, and the necessity for increasing social services to occupants, many Leagues point to the need for *additional* public housing.

Among the provisions the League supports are:

the separation of "annual contributions" [Sec 5(a)] from "operation" subsidies [Sec. 9 (a)]: Congress has recognized the need for operating subsidies for maintenance, etc. and has authorized and appropriated funds. The League has supported the Brooke amendments in recent years and considers this type of subsidy essential to the national commitment "to remedy unsage and unsanitary housing conditions and the acute shortage of decent, safe, and sanitary dwellings for families of low income, . . .". [Sec. 2] HOWEVER, WE RECOMMEND AN INCREASE TO AT LEAST $500 MILLION IN THE OPERATING SUBSIDY FUND.

the fact that tenants are not barred from service on boards of directors [Sec. 2]: THE LEAGUE RECOMMENDS A CHANGE TO *REQUIRE* TENANT REPRESENTATION ON PUBLIC HOUSING BOARDS OR GOVERNING BODIES.

the requirement that at least 20% of public housing tenant units be occupied by "very low-income families", and the requirement that "to the maximum extent possible, in each project there shall be a reasonable cross-section of income levels of tenants within the low-income range". [Sec. 3]

the fact that "operating" costs of tenant programs and services, are defined to include development and maintneance of tenant organizations which par-

ticipate in the project management, counseling on child care and budgeting, etc.

THE LEAGUE IS VERY CONCERNED, HOWEVER, AS TO WHETHER OR NOT THE INCOME REQUIREMENTS AND EXCLUSIONS IN S 2182 ARE SUCH THAT PUBLIC HOUSING WILL REALLY BE AVAILABLE TO WELFARE RECIPIENTS AND PEOPLE WITH THE LOWEST INCOMES. We appreciate the dilemma created by the high costs of maintenance and operation of public housing and the low income of tenants. BUT WE WANT TO BE SURE THAT THE BROOKE AMENDMENTS ARE PROTECTED AND THAT THERE WILL BE SUFFICIENT FEDERAL SUBSIDIES TO MAKE UP FOR COST DIFFERENCES. PUBLIC HOUSING IS, AFTER ALL, THE MAIN ALTERNATIVE THAT VERY LOW-INCOME PEOPLE HAVE TO LIVING IN SUBSTANDARD, SLUM-AREA HOUSING.

COMMUNITY DEVELOPMENT PROGRAMS: S 1743 AND S 1744

"Of increasing concern also, throughout the state, are the community development programs. Funds which have been cut off for whatever reason should be restored so that our towns and cities may proceed with urban renewal, open space purchases, water and sewer programs and the like."

—New Hampshire

"If revenue-sharing for Community Development is channeled to local governments without strings, what is to prevent federal funding from being used or misused) to assist affluent suburban areas at the expense of larger central cities—with the continued polarization of our population into the 'haves' and the 'have-nots?' "

—Hawaii

The League definitely prefers the "Community Development Assistance Act" (S 1744) to the "Better Communities Act" (S 1743). We endorse the intent expressed in both measures to reduce the red-tape and administrative confusion which have resulted from the complex application procedures prevailing under strictly delineated categorical grant programs. But we are convinced that the block-grant approach which requires an application procedure (as in S 1744) is superior to the revenue sharing approach which allocates funds without any application requirements. THE LEAGUE SUPPORTS A *REQUIRED APPLICATION PROCEDURE* AS ONE MEANS OF ASSURING THAT FUNDS WILL BE GRANTED *ONLY* WHERE COMMUNITY AND STATE PLANS CONFORM TO NATIONAL GOALS.

We prefer the "Community Development Assistance Act" (S 1744) for these reasons:

the fact that the emphasis of "Findings and Purpose" in S 1744, deals with basic concepts and national needs, as is illustrated in this statement: "the Nation's cities, towns, and smaller urban communities face critical *social, economic* and *environmental* problems," which arise in part from urban-area population growth and concentration of lower-income persons in central cities, and from "inadequate public and private investment and reinvestment in housing and other physical facilities, and *related public and social services*." [Sec. 2 (a) (1) (A)]

the fact that the emphasis of "Findings and Purpose" in the "Better Communities Act" (S 1743), on the other hand, concentrates on *administrative* factors to justify the need for change, and for granting local communities and states greater discretion and control over community development needs. That emphasis is totally inadequate in that it fails to deal with *national* goals.

—the fact that S 1744 states *unequivocally* that "the improved program of Federal assistance provided in this Act is designed to support community development activities which are directed toward such *national goals* as:

"(A) conserving and expanding the Nation's housing stock in order to provide a decent home and a suitable living environment for every American;"

(B) eliminating slums and preventing deterioration of community facilities;

(C) achieving more rational utilization of land and other natural resources . . .;

(D) (E) (F) expanding and improvement of the quality of community services, restoring historic and other special properties, and eliminating conditions which are detrimental to health, safety and public welfare, etc.

—the fact that S 1744 provides that Federal funds should not go automatically to states and local governing bodies, but should be granted *only* on the basis of annual applications which would include [Sec. 7(a) (1 & 2)]:

• the fact that S 1744 requires that an outline of community needs, objectives and actions to be taken during the next three year period is tied to the goals stated above, and places special emphasis on meeting housing needs for families with low- and moderate-incomes. THE LEAGUE IS PLEASED THAT THIS SECTION REINFORCES THE PROVISIONS OF THE "HOUSING ACT OF 1973";

• the fact that, in S 1744 the required description of activities to be undertaken over a two year period *includes* costs, general location and requirements for federally-assisted *housing* units;

• the fact that S 1744 requires certification that the applicant has determined that proposals are consistent with comprehensive development plans and national growth policies, that adequate public hearings have been held with regard to purchase of private lands, and that adequate opportunity has been provided for citizen participation in development of applications and "for meaningful involvement of residents of areas in which community development activities are to be concentrated, in the planning and execution of the activities."

In general, the kinds of community development programs authorized for federal funding in both bills provide a wide variety suitable to local planning and sufficiently flexible to meet special needs. Overall, we believe that S 1744 represents a genuine compromise toward the Administration's desire to move away from categorical grant programs and toward greater flexibility and responsibility for local governments.

The League has no objection to calling the new program "special revenue sharing," so long as the goals of the program and the application requirements are in line with the provisions of S 1744. We are convinced, however that, it is essential to set forth, and require adherence to, specific national goals in a federal programs as basic to the people's well-being as our community development programs.

The League may wish to submit a supplementary statement when we have had more opportunity to evaluate both community development programs, and when the Administration submits its new housing recommendations and legislation.

A final League quotation sums up the urgency for Congressional action on housing and community development:

"During mid-February, . . . the Housing Authority's request to build 34 more low-income units was in limbo because HUD had not responded to Beloit's request for a waiver of the moratorium on housing construction. . . . The city's urban renewal effort was being jeopardized by HUD's directive banning further acquisition of land. Programs that had been flourishing seemed checked; the mood was dark."

—Wisconsin

ADDENDUM: EXCERPTS FROM LEAGUE REPORTS ON HOUSING AND COMMUNITY DEVELOPMENT

To accompany statement filed with the Senate Subcommittee on Housing and Urban Affairs in connection with legislation on housing and community development: S 2192, S 1743 and S 1744. NOTE: all excerpts from local and state Leagues are from communications *after* imposition of the housing moratorium and cancellation of community development programs in January 1973. Even though many of the reports pertain specifically to the impact of the moratorium in communities, that information in itself indicates support and need for federally assisted housing and community development programs.

CALIFORNIA

LWV of Central Marin

"League members in Marin and throughout California have worked hard to increase the supply of low-moderate income housing. . . . Currently, 261 dwellings are being provided under this program; there is a waiting list of applicants who need housing of this kind.

"However, two other [developments providing housing for elderly and families] which had progressed through the feasibility study phase will not be built. One of

these would have provided 140 units for the elderly and the other 100 units for families and 45 for the elderly. This is the very type of housing that is most needed in Marin. In addition to the immediate loss of housing, the moratorium will make it impossible for the Ecumenical Association to continue operation."

LWV of Diablo Valley

"Without alternative programs in effect, figures developed by Californians Against the Moratorium estimate a loss of $355 million to the Bay Area economy within the next twelve months: low middle income housing units worth $314,323,000 (16,600 units) will not be built; college housing worth $21,091,000 will not be built; water and sewage facilities worth $7,855,000 will not be built and $11,881,000 in open space will not be purchased. In addition, in housing construction alone, the moratorium represents a loss of 26,557 man years of employment. *Further, it will take 18–24 months after the moratorium is over before new federally subsidized housing can be built.*

"There are four Housing Authorities in Contra Costa County, one of which serves the Diablo Valley area. Although central Contra Costa County is one of the more affluent sections of the Bay Area, our local Housing Authority serves more than 2700 needy families and has three families waiting for every one served. Nevertheless, because of cutbacks by the Office of Management and Budget, the Housing Authority expects to be short $300,000 in operating costs next year for the 1040 owned public housing units. In addition, the Housing Authority will need to relinquish 200 of its 1704 housing leases in order to pay market rents on the remaining 1500. Social services available in Public Housing centers will also be hurt: a day care center will not be built."

LWV of Marysville-Yuba City

"Yuba and Sutter Counties have a very high percentage of substandard housing and also a very definite shortage of adequate housing for low and middle income people. The study recommended that the need be filled through the use of FHA 235 and 236 programs and the HUD Section 23 leasing program. This conclusion was fully supported by the local realtors and developers, who realized that although they had tried for years to meet this need themselves they simply couldn't do it without help. They welcomed the subsidized housing program as a way to solve the problem and still keep the land on the local tax rolls."

LWV of Ventura County

"The Ventura City Housing Authority, which has a waiting list of 450, has lost 103 units, previously approved by Ventura voters, due to the moratorium. It now takes approximately 30 months for a senior citizen to get a unit.

"Oxnard has lost 100 units due to the moratorium. Also their modernization program is being held up. Of $3 million promised by HUD, they have received only $150,000.

"Santa Paula, which has a waiting list of 550, is losing the 50 units for which they have applied. Families on their waiting list must wait two to three years for housing.

"The freeze on subsidized housing programs cannot be measured just by its impact on the poor and ill-housed. There is an economic impact also. Building trades representatives have estimated that 150,000 building trades members in California will be out of work by summertime."

CONNECTICUT

LWV of Bridgeport Area

"I think that in Connecticut, the programs have been well conceived and well administered—almost to an extreme. The time-lag between planning and moving in is unbelievably long. The funding is obviously inadequate for this area since none of the projects would have been built without the State tax abatement program. According to the Assistant Bridgeport Housing Director, none of the projects in Bridgeport are in trouble at the moment but will be if the State cuts the tax abatement below $350 per unit.

"Public housing in Bridgeport is in terrible condition. We have more than any other in the State.

"In Bridgeport, budget proposal phases out:

Model Cities	$1,490,000
Urban Renewal	2,600,000
Low and Moderate housing construction	7,000,000
East End Neighborhood Facility	516,000
Open Space projects	200,000"

LWV of New Canaan (Fairfield County)

"Virtually no low and moderate income housing is being built in this fast-growing county (the nearest to New York City) by private enterprise. Costs are so high that it's only feasible with generous federal financing, and then only with supplementary state help and private contributions or loans. Demand has been pushed up by a 21% increase in population over the 1960's, and by 599 manufacturing firms employing about 16,680 workers moving into the county during that period. Many of these workers and old residents cannot afford the median rent of $115 or median sales price of $34,700. (New rents average $210 and new sales $50,000.) Five thousand families in the Southwestern Planning Region are said to be living in overcrowded or substandard housing. With the federal freeze, the situation will get much worse.

"The impact is worst in cities like Stamford, Bridgeport and Norwalk. All have substantial numbers of low income residents, ilncluding minority groups, and all have recently been doing a lot of federally subsidized building to catch up with their critical housing shortage."

ILLINOIS

LWV of Illinois

"The moratorium has occurred at a critical point in time. Many of our suburban communities had after much study, begun to acknowledge the increasing need for low and moderate-income housing, which is not being met. Some of the communities had begun to seek ways to relieve this problem. . . . Without federal programs, it is doubtful whether the communities will either be financially able to assume the burden or be willing to do so.

"The Naperville and Glen Ellyn City Councils had requested leasing programs for low income families. Naperville applied for 100 leased dwelling units last July (1972) under Section 23 of the Housing Act of 1937. It took six months to process the application, and the funds are now frozen. Glen Ellyn requested 100 units early in March. That application is being processed by the Housing Authority. At least 10 other DuPage County communities are formally considering the leasing program.

"Elk Grove Village, Mount Prospect, Des Plaines, and possibly Palatine all had applications for senior citizens projects in process, but preliminary loan agreements had not been signed by January 5, and so the projects were affected.

"The effect of the moratorium is to terminate the possibility of the federal government using Community Development funds in such incentive programs."

LWV of Arlington Heights-Mount Prospect Area

"Only those past 12 months have we begun to see signs of ultimate success. An Illinois Housing Development Authority (IHDA) development of three-story apartments with 324 units (108 of them subsidized to moderate income rentals using FHA 236 funds) was built in Mount Prospect. It has been very successful. . . .

"The suburbs are crucial to meeting national housing needs. That's where the undeveloped land and the industrial employment opportunities are. For 3 years we have worked to get acceptance of this situation in the NW suburbs of Chicago. The moratorium has severely hampered our efforts. It has shown that the Administration backs those public officials and residents who have resisted the facts of local housing needs."

LWV of Chicago

"We estimate that of the over two million households in the region, about one quarter million fall in the category of moderate income [11.5% of the households]. Almost one third million fall in the low income category [14.2% of the households]. This is a total of more than one half million low and moderate income households representing one out of every four households in the region. . . .

". . . More than half of existing low cost housing in the region is substandard, overcrowded, or priced too high for the budgets of its occupants. We need to increase the supply of decent low and moderate income housing, regionwide, until one dwelling unit out of four is suitable for the one household out of four which has this need. We need to increase the total supply of low cost housing because our population and economy are growing and because the proportion of retired persons is increasing."

MASSACHUSETTS

LWV of Massachusetts

"With fewer living spaces available the law of supply and demand drives up the price of even substandard housing. If middle-income people must struggle to provide housing for their families, how much more difficult is the problem for the poor?"

NEW HAMPSHIRE

LWV of New Hampshire

"You must certainly be aware of the negative effect the moratorium prohibiting new contracts has had on subsidized housing etc. in New Hampshire. The need for adequate low-moderate cost housing is obvious throughout the state. Congress must appropriate funds equal to the full 1973 level for subsidized housing. . . ."

NEW JERSEY

LWV of Montclair-Glen Ridge

"There is great concern by many citizens in Montclair about the reduction or stoppage of federal funds for services which are urgently needed in our community.

"There is a serious shortage of housing for low and middle income families which might be partially alleviated:

(a) by federal funding of housing of an urban renewal project which has displaced many Montclair citizens;

(b) federal funds for maintenance and improvement of housing which, without such funds, might create other blight areas in Montclair."

OHIO

LWV of Cincinnati area

"The League of Women Voters of the Cincinnati Area is gravely concerned with the effect on Cincinnati of the cutbacks in programs and funds for subsidized housing. The process for evaluation and change or deletion of a program should be built into the plan setting up that program, but it should not be necessary to suspend or do away with programs in order to evaluate them. Stopping projects for a lengthy period of time means a great loss to the program in people, time and money, and makes it virtually impossible to pick up where the program left off without expenditure of extra time and money."

LWV of Delaware

"*Housing.* The London Town project of the Delaware Housing Corporation is not affected, since its funding was committed before the budget freeze. However the Corporation had originally planned to undertake further developments; London Town was the first step. This is no longer possible with the freeze on uncommitted HUD funds. There is still a need for quality low-income housing in Delaware, Ohio; there is very little existing housing that would be suitable for improvement.

"*Neighborhood Center.* The construction of a neighborhood center in the Southwest section of Delaware has been under consideration for some time. The city government had just asked that a project proposal be written for HUD funding, when the freeze was imposed."

LWV of greater Toledo

"Our general opinion is that a deficiency of habitable dwellings for low and moderate income families still exists in Toledo. We feel that the local federal housing programs have been moderately successful but that legislation toward a fair share housing program should be enacted. Opposition in the suburbs might soften if all communities were obliged to follow the same rules.

"Toledo now has a viable housing code and systematic inspection has begun. The need for rehabilitation loans and grants is greater now than ever. We therefore would like the Federal Government to concentrate on new legislation to promote programs for rehabilitation. This is an area that we are viewing optimistically as Toledo has many neighborhoods that must be saved and the cost of rehabilitation would be much less than the cost of new housing."

OREGON

LWV of Central Lane County

"All agencies are struggling to keep their doors open while petitioning for funds from various sectors—with one wary eye on Special Revenue Sharing. Our local governments, Eugene City and Lane County, are proceeding to reorganize and investigate funding at least some outside agencies from their present revenue sharing funds until Special Revenue Sharing, or some other form of federal aid is forthcoming."

TENNESSEE

LWV of Nashville

"Housing needs continue to be a major problem, and programs to meet these needs are being curtailed or abandoned, with new ones proposed to replace the old. We need to dispel the rumors regarding the existing programs with hard facts; we need to inform the public concerning the new proposals, and to weigh their potential effectiveness."

TEXAS

LWV of Houston

"Some of these programs (e.g. Model Cities) may be picked up by Special Revenue Sharing, but we are facing a lag of at least a year before money would be available. Our needs still exist. True, some needs may be met under new federal programs, but it is impossible for a citizen to trace the devious labyrinth of the budget to discover if a particular need will be re-programmed.

"We plead for continuation of federal monies at the present level until our local programs can be evaluated or replaced by Special Revenue Sharing or local funding. The League is not opposed to reducing federal expenditures or sharing federal tax dollars *per se*. But the League does care about *what* programs will suffer when expenditures are reduced with no time for transition. On the other hand, perhaps federal guidelines are the surest method to correct environmental and poverty situations that were created or, at least, allowed to develop by the local authorities."

UTAH

LWV of Salt Lake City

"Neighborhood Development and Urban Renewal—efforts in Salt Lake and Ogden are being ended. Of special concern is the lack of funding for the Central City Neighborhood Development Project which was supposed to begin early this year but has been held up or terminated because of the suspension.

"Code Enforcement and Neighborhood Rehabilitation—these programs are being phased out with withdrawal of Federal support in Salt Lake and Ogden."

WISCONSIN

LWV of Beloit

"The director of the Redevelopment Authority in Beloit told LWV that he fears that urban renewal is dead as a concept at the federal level, and stressed that between January, 1974, when the old categorical aids program will end, and June, 1974, when new community development funds will be released, Beloit will be without sorely-needed money for urban renewal. Very recently Beloit has learned that its request for an additional 2.1 million will probably come through from HUD; it has been given "highest priority," despite the fact that a large shoe company did not purchase a site in the downtown renewal area—and the money was to have been contingent on that purchase. The urban renewal director said, though, that our share of Better Communities Act money ($450,000 for the first two years, $83,000 per year thereafter), will not be adequate. A city of Beloit's size (35,000) cannot hope, he said, to compete for funds with one like Milwaukee."

LWV of North Shore, Milwaukee County

"A housing study which our League did in 1970 showed a serious lack of low and moderate income housing in the North Shore. In a study reported in the Shorewood Herald on September 7, 1972, Shorewood was found to have the highest percentage of persons 62 and over of the 19 municipalities in the county. The same study revealed that income-wise, Shorewood rated 15th. Our members worked for the passage last year of a Fair Share Housing Plan by the Inter-Governmental Cooperation Council and when the 19 accepted it, we saw hope for more units in our area. In Shorewood, 546 units of 236 housing were in the planning stage (i.e. when the moratorium was declared). Now the picture looks bleak."

LWV of Watertown

"Since January 1972, approximately $3,000,000 was brought into the Watertown area by the FHA 235 and FHA 236 programs. In 1972, 130 FHA 235 and FHA 236 homes were built in the Watertown area. This program stimulated the building industry which had been experiencing a slump. It also provides business for the banks and provides housing for middle and lower income people who otherwise would be unable to buy a new home during this period of high prices. As a result it relieves the housing shortage, brings money into the community as provides work for those in the building trades.

"It is clear that the moratorium on new low- to moderate-income housing is hurting the people in our community."

THE LEAGUE OF WOMEN VOTERS OF THE UNITED STATES,
Washington, D.C., May 1, 1973.

HON. JAMES T. LYNN,
Secretary of Housing and Urban Development,
Washington, D.C.

DEAR MR. SECRETARY: I am pleased to respond to your request that the League of Women Voters comment about our views on the "federal government's role in housing," and how this role can best be carried out. First, let me say that we are heartened by President Nixon's statement in his fifth State of the Union Message: "This Administration is firmly committed to the goal first set forth for America in the 1949 Housing Act: 'a decent home and a suitable living environment for every American Family.'"

We disagree, however, with the belief Mr. Nixon expressed in his radio address on community development that "the hour of crisis has passed." Despite the progress that has been reported by HUD in recent annual reports, the nation still is not meeting the numerical goals for new low- and moderate-income housing. There is still a high incidence of urban, suburban and rural slums, and we believe a state of crisis still exists—perhaps not for the more advantaged majority of United States citizens, but certainly for the less privileged citizens.

Equal opportunity for access to an adequate supply of sound housing in a suitable living environment, available without racial or economic barriers, has been, and continues to be, the League's basic goal for housing. To reach that goal, League members support such federal programs as the following:

A major federal responsibility for program development, funding, oversight, and leadership to assure a coherent nationwide attack on housing shortages and blight in urban, suburban and rural areas. (It has been clearly established that private industry cannot meet the need for lower-income housing.)

Specific *federal* programs for lower-income individuals and families, including income grants and aids to home ownership and rental, subsidies for cooperative and nonprofit housing developments, assistance for public housing that permits an economic mix and is constructed in small enough segments and on scattered sites so that public housing itself does not constitute a ghetto.

Tough federal laws, regulations and administrative practices to assure a *positive* federal thrust toward, and undergirding of, housing programs which actually result in breaking down racial and economic barriers.

Strict federal requirements for citizen participation in the development, planning and oversight of housing programs at the community level.

Federal laws and policies which encourage a flexibility of choice, so that cities and communities may decide among the federal programs which best suit their needs, and put the programs into effect without undue administrative entanglement and delay.

A *federal* role which encompasses a broad range of programs and services, including:

(1) incentives to cities and communities to enable and encourage them to provide an adequate supply of sound low- and moderate-income housing;

(2) assistance to strengthen the capabilities of state and local agencies responsible for developing housing programs;

(3) evaluation of programs in terms of the numbers and soundness of units produced, rather than in terms of benefits accruing to the financing, insuring and construction agencies or industries;

(4) aids to cities and communities to make possible the acquisition of land at reasonable prices;

(5) encouragement of regional and metropolitan planning to prevent haphazard growth and to ensure that new housing programs are developed in a context which provides access to employment, to good schools, to open space and adequate recreation;

(6) adequate federal administrative and monitoring personnel, and tough enforcement powers to assure adherence to federal requirements and high quality standards.

From long experience in their cities and communities League members are aware that the goals and methods outlined above are not easy to attain. We know, in fact, that they cannot be attained if the job is turned over completely to local and/or state governments. Patterns of living and housing are so inescapably interwoven with the opportunities for good health, sound education, adequately paid jobs, and access to receration that we are convinced that the federal role in housing lies at the heart of the government's responsibility to "promote the general welfare" of the nation. . . .

I am sure, therefore, that I speak for our entire membership in urging that you exert the utmost effort to restore confidence in and the federal government's commitment to supporting an adequate supply of sound housing to meet the needs of lower income people, and to achieve socially desirable goals of creating integrated neighborhoods in environmentally healthful areas.

Sincerely,

LUCY WILSON BENSON,
President.

THE AMERICAN BANKERS ASSOCIATION,
Washington, D.C.

JOHN SPARKMAN,
Chairman, Senate Banking, Housing, and Urban Affairs Committee, Dirksen Senate Office Building, Washington, D.C.

DEAR SENATOR SPARKMAN: The American Bankers Association has 13,000 member commercial banks that are heavily involved in making funds available for housing and related community requirements.

Commercial Banks hold approximately $117 billion in construction and long-term mortgage loans, of which $76 billion are in residential mortgages—$64 billion in 1–4 family mortgages, second only to savings and loan associations, and exceeding substantially the holdings of mutual savings banks and insurance companies.

Mortgage holdings are important, but over emphasis of such holdings may result in overlooking the additional vast financial commitments that are required to produce homes for American families. Commercial banks have substantial commitments of funds for land acquisition, construction loans and lines of credit to all other groups of financial institutions. Among financial institutions, commercial banks are a leader in providing financing for the total needs of our communities.

CURRENT LEGISLATION

The American Bankers Association has not had an opportunity to study in depth all bills that are currently before your Committee. However, our Association takes this opportunity to express its views on the following legislative proposals.

Last year your Committee reported, as part of the omnibus Housing Bill, and the Senate passed, a provision designed to simplify, consolidate, and modernize the law relating to the invesetment by national banks in loans secured by real estate.

In Congress, Senator Brooke has reintroduced the same provision and the current number is S. 2175.

As your Committee has already studied and recognized the merits of this measure our comments will be brief.

In attempting to finance legitimate needs of customers and communities, national banks have been needlessly hindered by outmoded and cumbersome investment statutes. In the real estate area, the impediment has been Section 24 of the Federal Reserve Act which was originally enacted in 1913. If increasing housing needs are to be effectively served by the resources of the real estate industry

Section 24 must be amended to provide national banks with the tools that are required to finance real estate in today's environment.

S. 2228 and S. 2288, are designed to reduce and standardize settlement costs. In previous testimony our Association has indicated a sincere desire to reduce and standardize settlement costs because we realize that a reduction in the amount of money a homeowner must advance at time of settlement will increase the number of families who can afford home ownership. Nevertheless, we are unable to support either S. 2228, or S. 2288 as they will expand the Federal regulation of closing costs so as to apply to conventional mortgages merely because they are made by an insured lending institution.

We see no reason for Congress to supersede State authority in this manner. We urge that any Federal regulation of closing costs not be applicable to conventional mortgages.

While the ABA recognizes that S. 2228 is a more moderate bill than S. 2288, we are concerned that both bills require disclosure of closing costs 10 days in advance of settlement. This requirement for disclosure 10 days in advance may delay closing and in so doing injure the home purchaser. Such delay, also, could mean payment of 10 days' more interest by the builder on the construction loan.

The 10-day period is too long and should be reduced since both the amount of the cost and the actual services to be performed in the closing may not be determined at this early date. For example, the lender may not know whether a survey will be necessary prior to completion of title search. We would suggest that the 10-day advance disclosure period be reduced to 3 days.

In many instances, the settlement attorney or title company is in the best position to disclose costs and, therefore, the lender should not be legally responsible for the correctness of costs disclosed.

S. 2288 imposes on lenders that are financial institutions responsibility for administering and enforcing compliance with restrictions on closing costs. In settlement transactions, custom and usage vary throughout the country. In some instances a lender is not involved in establishing and assessing many of the settlement charges. A uniform requirement imposing responsibility on the lender for enforcing compliance with ceilings on settlement charges is impractical. Furthermore, in many cases the lender does not have authority to be certain that other parties have complied with these requirements.

Both bills impose criminal penalties on any person who in connection with a settlement involving a Federal related mortgage, accepts or gives anything of value. We are in sympathy with any attempt to prohibit kickbacks. However, the language in both bills is so broad and so indefinite as to make interpretation most difficult.

S. 1329 authorizes FNMA to purchase conventional mortgages in dollar amounts up to $45,000, increases their permissible loan-to-value ratio from 75 percent to 80 percent, and permits purchase of conventional mortgages that are insured by non-private insurers. The ABA believes that this liberalization is needed and recommends its enactment.

The ABA continues to support the parts of S. 2182 which consolidate and simplify the FHA programs. While the Association would prefer a free interest rate of the type approved by your Committee in 1970, we believe that section 103 of S. 2182 which would establish a dual interest rate is a worthwhile experiment. Section 103, until July 1, 1975, would permit HUD to insure loans without regard to the interest rate if no charges in the nature of discounts or points are made in connection with the mortgage transaction.

Sincerely yours,

CHARLES R. MCNEILL,
Executive Director, Government Relations.

STATEMENT OF WILLIAM F. MCKENNA, GENERAL COUNSEL/VICE PRESIDENT OF THE NATIONAL LEAGUE OF INSURED SAVINGS ASSOCIATIONS

The National League of Insured Savings Associations is a trade association composed mainly of savings and loan associations around the country. It also includes in its membership many associate members that have an interest in the operation of savings and loan associations. The National League appreciates the opportunity to express to the Subcommittee on Housing and Urban Affairs the following observations in connection with the Subcommittee's current hearings on housing and community development bills.

MOST HOUSING FINANCED BY CONVENTIONAL MORGAGE LOANS

The attention given by the Federal government to housing financed with the aid of insurance or guarantee by Federal agencies has a tendency to obscure the fact that most housing in the United States continues to be financed through conventional financing without the assistance of housing insurance or guarantee by Federal agencies. General substantiation of the important role conventional mortgage financing plays in residential housing in the United States is provided by statistics appearing in the Federal Reserve Bulletin. Of the total amount of nonfarm residential mortgage debt outstanding on September 30, 1972, more than ⅔ was financed by conventional means and less than ⅓ was financed by mortgage loans insured by the Federal Housing Administration or guaranteed by the Veterans Administration. The table headed "Mortgage Debt Outstanding" on page A49 of the Federal Reserve Bulletin for May 1973 discloses the following statistics:

NONFARM RESIDENTIAL MORTGAGE DEBT OUTSTANDING, SEPT. 30, 1972

	Amount (billions)	Percent of total [1]
Type of financing:		
FHA–VA underwritten	$129.0	31.5
Conventional	279.9	68.5
Total	408.9	100.0

[1] Rounded to nearest ½ of 1 percent.

First, therefore, the National League respectfully urges the Subcommittee not to overlook conventional mortgage loans as a source of helping to finance the nation's housing goals, in the absorbing nature of the Subcommittee's examination into the important issue of developing suitable Federal legislation for that portion of the housing market to be financed through Federal assistance.

SAVINGS AND LOAN INDUSTRY'S MAJOR ROLE IN HOUSING FINANCE

Second, the National League respectfully invites the attention of the Subcommittee to the major role played by the savings and loan industry in financing the nation's housing supply.

Of the above total of $408.9 billion of mortgage debt outstanding on nonfarm residential properties on September 30, 1972, $335.6 billion of mortgage loans were held by financial institutions (commercial banks, mutual savings banks, life insurance companies and savings and loan associations). (See table headed "Mortgage Debt Outstanding on Residential Properties", Federal Reserve Bulletin, May 1973, page A49).

Commercial banks held $59.976 billion of nonfarm residential loans (See table headed "Mortgage Loans Held by Banks", Federal Reserve Bulletin, May 1973, page A50).

Mutual savings bank held $55.889 billion of such loans (See table headed "Mortgage Loans Held by Banks", Federal Reserve Bulletin, May 1973, page A50).

Life insurance companies held $70.195 million of nonfarm mortgage loans (which a footnote states include some loans secured by land on which oil drilling and extracting operations are in process). (See table headed "Mortgage Activity of Life Insurance Companies", Federal Reserve Bulletin, May 1973, page A50).

Even assuming that all of these loans were for nonfarm residential properties, the sum of those reported held by commercial banks ($59.976 billion), mutual savings banks ($55.889 billion) and life insurance companies ($70.195 billion), amounts to a total of $186.060 billion compared with the total of $335.6 billion of nonfarm residential mortgage loans held by these three types of financial institutions and savings and loan associations.

The remainder of the $335.6 billion total, then, may be presumed to be held by savings and loan associations. This amounts to $149.540 billion. These calculations indicate that savings and loan associations on September 30, 1972 held at least 44% of the mortgage debt outstanding on nonfarm residential properties in the United States.

These data may be summarized in tabular form as follows:

Financial Institutions' Holdings of Mortgage Debt Outstanding on Residential Properties as of September 30, 1972

Type of institution	*Holdings in billions*
Commercial banks	$59.976
Mutual savings banks	55.889
Life insurance companies	70.195
Savings and loan associations	149.540
Total	335,600

In view of the very important share of the residential financing in this country that is done by the savings and loan industry, the National League trusts that the Subcommittee will keep in mind the likelihood that the savings and loan industry will be looked to in order to continue supply financing for a substantial part of the nation's housing needs. It is requested, therefore, that in considering housing legislation, the Subcommittee also consider whether it will be economically feasible for the savings and loan industry to continue to make the significant contribution it has made in the past as a source of residential mortgage loans.

SAVINGS DOLLARS VERSUS DEFICIT DOLLARS

The bulk of the funds used by savings and loan associations in such financing is obtained from the savings of millions of people who have deferred a use of their money that would satisfy their immediate wants in favor of investing it in savings accounts that produce earnings for them. These savings funds are non-inflationary in nature because they represent a conscious decision against an alternative use by their owners that could well be inflationary in nature in a period when the production of goods in the United States is coming close to the capacity to produce those goods.

In contrast, if home financing were to be accomplished by Federal government money during a time when the Federal budget is in deficit, the money required for that purpose would be raised through borrowings by the Federal government, thereby increasing the deficit. The result tends to cause more inflation.

The National League urges the Subcommittee to keep the foregoing facts in mind during its deliberations on Federal housing legislation.

THREATS IN NEW RATE CEILING STRUCTURE TO SAVINGS FUNDS IN SAVINGS AND LOAN ASSOCIATIONS

It is feared that the recent changes in Federal ceilings on earnings rates payable on savings accounts and deposits will make it more, rather than less, difficult for savings and loan associations to attract savings funds that become available to make housing loans. Those changes included a removal of rate ceilings from two classes of accounts or deposits, as follows:

1. $1,000 minimum accounts having a minimum term of 4 years.
2. $100,000 minimum accounts having a minimum term of 30 days.

They also resulted in narrowing the differential in rate ceilings on regular savings accounts in savings and loan associations as compared to commercial banks to ¼ of 1% per annum from ½ of 1% per annum.

The National League advocated that no change be made in the rate ceilings that prevailed before July 1, 1973. It took that stand for several reasons.

a. Under the old ceilings, savings and loan associations in general were continuing to attract savings funds, although such associations in some geographic areas were not attracting savings funds in sufficient amounts to maintain their former level of lending operations.

b. An increase in rate ceilings comparatively small when compared to the increase in money market rates would not enable savings and loan associations to attract funds in competition with high-yielding money market instruments, if the funds are to be employed in making housing loans that in many States are subject to usury ceilings lower than money market rates.

c. The unfortunate result from the standpoint of housing finance is that savings and loan associations would be economically impelled to use in investments other than housing loans, savings funds for which they pay a high rate, to the quite limited extent non-housing loan investments are lawfully available to them.

d. Also, unfortunately, the additional cost to savings and loan associations of attracting savings funds would tend to increase the interest rates charged on resi-

dential mortgage loans, when the funds are used for that purpose within applicable usury ceilings.

But National League warnings did not dissuade Federal banking agencies from increasing some rate ceilings and removing others. The result bodes ill for the continued availability of funds to make residential mortgage loans in amounts adequate to meet the nation's housing goals, particularly in view of the predominant role the savings and loan industry has played as a supplier of such loan funds.

Particularly worrisome is the new ceilingless category of savings account or deposit in a minimum amount of $1,000 for a minimum maturity of 4 years. During the short time this new category of account has been in effect, the most commonly quoted earnings rates for the category range between 7 and 7½% per annum. Higher rates reaching 8¼% per annum have been offered by some institutions. Another institution has introduced sliding scale formulas tied to a prime rate of 8¼% per annum with no ceiling. Still another financial institution has linked the interest rate on deposits to the consumer price index, with a ceiling of 10% per annum.

As might be expected, early indications are that banks are outbidding savings and loan associations for funds in this new category, because banks have high-yield investment outlets for funds so obtained that are denied to savings and loan associations.

Although the Federal Reserve Board on July 26, 1973 took action to limit each member bank to the issuance of an amount of $1,000-4-year certificates of deposit bearing an interest rate higher than 6½% per annum that would not aggregate more than 5% of the bank's time and savings deposits, this still presents a possibility of having more than $13 billion of this category of certificates of deposit outstanding within that limit. Time and savings deposits in Federal Reserve member banks on a preliminary basis, were stated to be $260.5 billion at the end of April 1973 (See table headed "Aggregate Reserves and Member Bank Deposits", Federal Reserve Bulletin, May 1973, page A17).

That $13 billion estimate increases to well above $16 billion now that all commercial banks have been brought within the 5% of time and savings deposits limit through FDIC action paralleling that taken on July 26 by the Federal Reserve Board. Time and savings deposits in all commercial banks in the United States on a preliminary basis, were stated to be $335.1 billion at the end of April 1973 (See table headed "Principal Assets and Liabilities and Number, By Class of Bank", Federal Reserve Bulletin, May 1973, page A18).

It is fair to predict that much, but not all, of the money raised by banks through issuing consumer certificates of deposit removed from Federal rate ceilings will represent money that is now or would be in savings and loan association savings accounts, in the absence of the new rate ceiling structure. It may be conceded that with or without that new rate ceiling structure, some funds that would otherwise find their way into savings and loan association savings accounts will drift to investments in higher yielding money market issues, U.S. Treasury obligations and Federal agency obligations. But the attractiveness of deposit insurance; the assurance of availability of 100 cents on the dollar for all savings accounts insured by Federal agencies within the coverage offered by that insurance, regardless of changes in values in the securities markets; the freedom from payment of purchase or sale fees that prevails in making or withdrawing deposits in depository institutions; and the lack of necessity of any great degree of financial sophistication in handling deposit transactions as distinguished from ordinary securities investments all combine to attract certain categories of funds and investors to depository institutions rather than to other investment media. Within that segment of funds, herefore, it is essential that savings and loan associations be enabled to attract an appropriate share if they are to continue to be able to finance the housing needs of this country to the extent they have in the past.

The National League is aware that prime jurisdiction over strictly savings and loan association Federal legislative matters rests in a different Subcommittee than the Subcommittee on Housing and Urban Affairs. But members of both Subcommittees sit on the full Committee on Banking, Housing and Urban Affairs which has jurisdiction over both housing and savings and loan associations to the extent that Federal legislation affects either of those segments of the economy. Therefore, the National League urges the Subcommittee on Housing and Urban Affairs to bear in mind what effects their decisions on Federal housing legislation may have on the ability of the savings and loan industry to provide a desirable share of housing finance in the United States.

HOUSING LEGISLATION GUIDELINES

As for legislative proposals directly related to Federal housing legislation, the National League has presented pertinent views to this Subcommittee during its April 1973 oversight hearings on housing and urban development and to the Department of Housing and Urban Development on May 1, 1973 in response to the department's solicitation of comments meant to be useful in its study of departmental programs.

Rather than repeat any of those views at length, the National League prefers to summarize them succinctly as follows:

1. The Federal government is an appropriate source for justifiable housing subsidies to the extent they are not obtainable from other sources.

2. Making Federal housing subsidies available through the facilities of experienced private lending institutions can result in maximum net benefit to subsidy recipients. It avoids costly duplication of facilities.

3. Direct Federal lending programs for housing, in contrast, contain hidden costs (decrease of the base of taxable income) and undesirable side effects (increase of Federal deficits).

4. Federal housing subsidy programs should not be potentially so large in scope as to hold out false hopes to many eligible recipients, when the government's financial condition will not realistically permit it to honor the requests of all eligible recipients.

5. Federal housing subsidy programs should aim to satisfy housing needs as distinguished from housing wants.

6. Difficulties encountered in housing programs authorized under sections 235 and 236 of the National Housing Act seem to be more attributable to administrative rather than philosophical reasons.

7. It is fitting that the Federal government continue to experiment with acceptable ways to provide housing subsidies in order that they may best satisfy the public interest.

8. More attention deserves to be given to orienting recipients of Federal housing aid in acceptable ways to use and care for the housing facilities thereby made available to them. Compliance with those acceptable ways should then be enforced and non-compliers should be compelled to forfeit the benefits made feasible for them by the subsidies provided by their fellow citizens.

9. In areas not involving direct Federal housing subsidies, the Congress should authorize Federally-chartered financial institutions to provide equity and debt capital to State housing corporations to help meet housing needs of low- and moderate-income people. For example, Florida's State housing corporation will combine direction by a policy board composed of public and private officials with interest rates on selected mortgage loans that are below market rates but above the cost of money to the private financial institutions furnishing the capital.

10. Cooperative housing should be made eligible for mortgage loans from Federal savings and loan associations presently available for single-family dwellings on a maximum loan-to-value ratio of 95%. These loans would have the extra support of private mortgage insurance for the amount above an 80% loan-to-value ratio or a special reserve equal to 1% of the amount of the loan.

11. The normal loan-to-value limit on loans eligible for purchase by FNMA and FHLMC should be increased to 80% from 75%.

12. The limit on the amount of loan eligible for purchase by FNMA should be made equal to that a Federal savings and loan association can make as a normal loan secured by a single-family dwelling. Presently that amount is $45,000, but should be increased to $50,000 to compensate for ground lost to inflation.

13. Permission for variable interest rates should be granted for mortgages insurable by the Federal Housing Administration (FHA).

14. A dual alternative interest rate limit should be established for FHA-insured loans. The alternative rate should be a specific one established by the FHA with discount allowed or a free market rate with no discount allowed, with the option in the lender to use either one of the two alternatives.

15. Make FHA an independent Federal agency that can again be self-supporting from mortgage insurance premiums charged in connection with loans made in accordance with the principle of economic soundness.

16. Assign the administration of Federally-subsidized housing programs to some agency other than FHA.

17. Instill in govrenment employees the realization that they are truly intended to be servants of the public, rather than masters. Increase the productivity of any role the government plays in housing or housing finance by emphasizing to its employees that they are expected to give an honest day's work to which they devote the best intellectual effort of which they are capable.

18. Establish a National Institute of Building Sciences to develop acceptable regulatory standards for housing and thereby help to economize on the cost of decent housing.

19. Consolidate and simplify Federal housing legislation along the lines provided in S. 3248 passed by the Senate last year.

20. As an experimental method of easing the difficulty experienced by depository institutions in attracting savings funds during periods of tight money, support legislation providing a limited Federal income tax deduction for earnings on savings accounts.

The National League will be willing to discuss in greater detail with any member of the Subcommittee or the staff of the Subcommittee upon request any of the suggestions made in this statement. It appreciates the opportunity of presenting these views to the Subcommittee.

OFFICE OF THE MAYOR,
Trenton, N.J., July 27, 1973.

Hon. JOHN SPARKMAN,
Chairman, Senate Subcommittee on Housing and Urban Affairs, Dirksen Senate Office, Washington, D.C.

DEAR SENATOR SPARKMAN: It is my understanding that the Senate Subcommittee on Housing and Urban Affairs is currently taking testimony from interested groups on all elements of the omnibus housing legislation under consideration, including the 701 Comprehensive Planning Assistance program.

As Mayor of a city in which 701 funds have enabled implementation of basic management improvements and community development activities which the City would not otherwise have been able to afford, I support strongly this program. The City of Trenton has been able to use more sophisticated management technologies to review City services for ways to increase productivity and to reduce costs. We have, through 701 assistance, undertaken to assess our existing community participation processes and to design a city-wide process for participation. With the aid of Comprehensive Planning Assistance, we are also studying our zoning ordinance to determine how its revision could enhance community development obectives.

These are some of the projects which Trenton has begun with Comprehensive Planning Assistance funds, and are but a few examples of what other cities in need of improved public administration can accomplish with such grants. It is even more important now, in this period of changing federal-local relationships, that funds such as Comprehensive Planning Assistance remain available to assist cities in increasing their own planning and management capabilities.

Programs which have remained flexible and have adapted to changing local needs, as 701 Comprehensive Planning Assistance has done, are vital because of their allowance of innovation, to continued improvement of the management of cities and should be fully supported by the Congress.

Sincerely yours,

ARTHUR J. HOLLAND.

MARYLAND DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT,
Baltimore, Md., August 14, 1973.

Hon. J. GLENN BEALL, JR.,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BEALL: Thank you for your letter of July 25, 1973 with which you enclosed a copy of a letter from Senator Sparkman regarding Bill H.R. 8102, now pending before the House Banking and Currency Committee. You requested additional information which might be included in the record for the consideration of the Committee and, in this regard, we wish to submit the following:

The Bll states that it has, as its purpose: "to amend the United States Housing Act of 1937 to improve the financial condition of low-rent housing projects by

establishing a more realistic formula for the determination of rentals, and for other purposes." In our letter of July 9, 1973, we expressed the opinion that the enactment of this legislation would require public housing tenants to make up public housing deficits through increased rents, thereby negating the progress made by public housing tenants under the Brooke Amendment. Not only in this sense do we consider the Bill to be regressive, but it does not address itself to the failure of HUD to meet its obligations to provide subsidies commensurate with demonstrated need.

From our review of the proposed legislation, it appears to us that not enough indepth consideration has been given to its effect on the families served by the public housing program, the majority of whom are already forced to exist on extremely meager incomes.

Under the present HUD regulations, carrying out the "Brooke" Amendments, there is an exemption of $300 for each Secondary Wage Earner, before arriving at a Family Income Figure on which to base a tenant's rent. This can apply to the spouse or any other employed family member who is at least 13 years of age. (Income of a person under 18 years of age, other than the head or spouse, is totally exempted). Obviously, there can be more than one Secondary Wage Earner in the family, and it has always been a recognized fact that employed children, of any age, do not use all of their earnings in contributing to their family's support; therefore, their total earnings should not be included in setting rent. Under the Widnall Bill (page 3(B), lines 4 and 5), the Secondary Wage Earner exemption is only applicable to the earnings of "the spouse of the head of the household." We are in total disagreement with this. Again, as is common to many Housing Authorities throughout the country, the cast majority of our families are "broken" families, headed by the mother. The Widnall Bill makes no provision for a Secondary Wage Earner exemption in such family situations, and this must also be rectified.

Bill H.R. 8102 (page 3 (C), lines 5 through 11), is restrictive in the Dependent exemption of $300. Under "Brooke" regulations, $300 is allowed for each Department (other than head or spouse)—adult or minor—dependent on the family for support. The Widnall Bill, while continuing to allow the $300 exemption for persons who are under 18 years of age or a full-time student, restricts the exemption to person of 18 years and older *only* if they are "disabled or handicapped." We are in disagreement with this restrictive definition since, obviously, there are and will be family members, aged 18 years and older, neither handicapped nor disabled, who are dependent on their families for support. In this area, also, there is need for clarification of a "Dependent." Is this a person with "no income"? What constitutes a "handicap" or "disability"? These reflect some of our concerns in this area. Additionally, the Widnall Bill makes no provision for the "elderly," who presently receive a ten percent deduction before arriving at an income figure on which to base their monthly rent. This omission requires consideration and correction.

In the Bill's reference to rents paid by residents who receive welfare assistance (page 2, lines 8 to 14), we interpret this to mean that such residents would be charged, for rent, either: (1) one-fourth of the family's income, or (2) the maximum amount included in the welfare grant for "shelter" expenses, whichever is the *greater* of the two. If we are correct in this interpretation, the Widnall Bill would adversely affect thousands of welfare assistance residents in public housing throughout the country, in that rental increases across-the-board would be engendered. The "Brooke" Amendments permit public assistance residents to pay no more than one-fourth of their assistance grants for rent, without suffering a decrease in their grants if the one-fourth rent is less than the "shelter" allowance included in the grant. These residents have become accustomed to the little excess money they can apply to necessities other than "shelter," and we can foresee widespread tenant unrest if the Widnall provision is passed into law. As far as this Authority is concerned, some 67 percent of our total residents (12,753) or 8,583 families receive public assistance of one kind or another. At the present time, these famiiles pay an average rent of $38.83 per month. Under the provisions of the Widnall Bill, these families would be required to pay an average monthly rental of $65.86, a 70 percent increase over their present rentals.

For nonpublic-assistance families, the Bill provides (page 2, lines 5 to 8), that "in no case shall the rental be less than an amount equivalent to 40 per centum of that part of the cost of operating and maintaining the project which is attributable to the dwelling unit." In this Authority's Operating Budget for fiscal year 1974, HUD approved our overall operating expenses at $90 per unit, per month. Using the 40 percent provision quoted in the Widnall Bill, a minimum

rent of $36 per unit, per month, is produced for nonwelfare families. This Authority presently houses 4,170 nonwelfare families, of which 952 (22.8 percent) are paying an average rent of $24 per month. In order to reach the $36 minimum rent, these families would experience rental increases ranging from $1 to $23 per month, or an average increase of $12 per family, per month.

Page 2, lines 14 to 23, refer to payments of Annual Contributions, and qualifies a public agency for such contributions in any year only if aggregate rentals charged by the agency, in that year, "are not less than an amount equal to one-fifth of the sum of the incomes of all such families." Family income and, therefore, the rents collected by a local authority are flunctuating figures, as are the Operating and Maintenance Costs in administering the low-rent housing program. It is our feeling that a local housing authority should receive Annual Contributions, in any year, based on the following formula: Annual Operating and Maintenance Costs less Total Rental Income *equals* Annual Contribution.

It is our opinion that lines 14 to 23, page 2, be stricken from the Bill and that new language be inserted to the effect that "The Secretary shall make annual contributions to a public housing agency for the operation of low-rent housing project in any year in an amount equal to the difference between Annual Operating and Maintenance Costs and Total Rental Income." To us, this is the only way to insure the solvency of the low-rent housing operation.

Present Deductions and Exemptions permitted by the "Brooke" legislation have drastically reduced the operating income of all local Housing Authorities. However, its intent was to benefit public housing families, long forced to pay too large a proportion of their meager incomes for rent, and, in this, it was successful. It has improved the financial condition of these families, and they rightfully expect to continue to benefit from this legislation.

The Widnall Bill, on the other hand, appears aimed at improving the financial situation of local housing authorities, but at the cost of the tenants. We do not agree this is the solution to the problem and again request that you exercise your influence in postponing consideration of Bill H.R. 8102 until HUD and Mr. Widnall's advisors thoroughly study its overall impact on those most affected by the proposed legislation—low-income families, already on reduced incomes.

Sincerely yours,

R. C. Embry, Jr.,
Commissioner.

1973 HOUSING AND URBAN DEVELOPMENT LEGISLATION

TUESDAY, JULY 17, 1973

U.S. SENATE,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:15 a.m. in room 5302, Dirksen Senate Office Building, Senator John Sparkman, chairman of the subcommittee, presiding.

Present: Senators Sparkman, Tower, Biden, and Johnston.

The CHAIRMAN. Let the committee come to order, please.

I apologize for being late, but things pile up on us sometimes; I had some constituents.

Our first witness this morning is James Abourezk, U.S. Senator from South Dakota.

You know that Senator McGovern was supposed to be here. He is not here yet; so we will go ahead with you, if that is OK. We are very glad to have you.

STATEMENT OF JAMES ABOUREZK, U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator ABOUREZK. Thank you.

I would like to thank the chairman and Senator Tower and Senator Biden for holding hearings on this bill which was just recently introduced, as you know.

The CHAIRMAN. By the way, let me say this, and this applies to all the witnesses: we have your prepared statement and that will be placed in the record in its entirety. You may present it as you see fit.

Senator ABOUREZK. Thank you, Mr. Chairman.

[S. 361 is printed at p. 190.]

Senator ABOUREZK. If we are truly intent upon providing a decent home in a suitable living environment for every American family, then the time has passed when the needs of rural America can be put on the back burner.

It would be unreasonable to expect a national policy to succeed if the needs of a third of the population were overlooked during the design of that policy. But, too often in the design of our major social legislation, that is what happens. Rural America gets overlooked.

The statistics tell the story: rural America has a third of the population, 60 percent of the housing need, median family income which is 77 percent of that in metropolitan areas, 44 percent of the Nation's

poverty families and has received possibly only one-fourth of total Federal housing resources.

Across the board, from housing to health care to education and transportation, from the location of Federal facilities to the distribution of employment opportunities, rural America has been getting the short end of the stick.

Rural America is poorer and older. It has fewer doctors, less indoor plumbing, higher infant mortality rates, a more severe nutrition problem and triple the incidence of substandard housing when compared to urban America. Nearly every social index shows rural America trailing behind the cities.

These facts seem to be understood and, likewise, it seems to be understood that all of America is paying the human and social cost of rural America's stepsister status, yet somehow these understandings are rarely translated into Federal policy. Housing is a perfect example.

On the one hand you have the Department of Housing and Urban Development, which is overwhelmingly urban-oriented but which has somehow managed to put 21 percent of its assisted units in rural America.

On the other hand you have the Farmers Home Administration, which has responsibility for a dozen other diverse programs in addition to housing, which is limited to places of less than 10,000 population and which has never had the full range of tools available to the cities through HUD.

To put it bluntly, the cities have a single agency which is responsible for seeing that the promise of a decent home for every family is attended to, but in rural areas the policy is fragmented, the agency which one might suppose to be in charge has many other things on its agenda as well and labors under debilitating administrative and statutory limitations.

To be even more blunt about it, urban America has a very sophisticated housing delivery system. Rural America does not.

Mr. Chairman, I think in view of the chairman's statement that the statement will be accepted into the record, I will summarize as to the thrust of my statement.

The CHAIRMAN. Very well.

Senator ABOUREZK. I will ask that the entire statement be entered in the record.

The CHAIRMAN. Yes; it has been (see p. 190).

Senator ABOUREZK. This bill has a number of cosponsors and we hope to have more.

I would just like to say, Mr. Chairman, and members of the committee, that this is an entirely new concept in housing assistance programs. It is something I believe that not only the agricultural and rural part of America, but all of rural America will benefit by. It is something that is needed very seriously and very desperately in my opinion.

It will establish a new kind of housing concept similar to the Rural Electrification Administration. It will establish a Rural Housing Administration, allow local rural housing authorities or associations to be set up to take care of the programs, to make loans so far as rentals are concerned, so far as establishing housing projects, and it will establish a direct loan system from the Government to people

wanting to build housing out in rural America, rather than having Government-insured loans or Government-backed loans as has been the case, and it is in the opinion of people, the economists and so on who have worked in this program, that it is much cheaper for the Government to make a direct subsidized loan rather than to insure one, and it is not a necessarily radical new departure, because, as I said, it is patterned after the Rural Electrification Administration.

It is something that has worked in this country. It is something that is needed. And, of course, I don't guess a lot more needs to be said about the need for housing out in the open spaces of this country.

We do need, roughly, probably, 2 million more homes which this program will finance and undertake to accomplish.

I guess to conclude my testimony I just want to say that there is no cheap way to provide housing in this country, especially for rural America. There is going to be no way to do it so that it will cost almost nothing.

We have a gross national product in this country of over $1 trillion. I think we can easily provide a decent home for every American family, including those people who live in rural America.

With that, I will thank the committee for its kind attention, and for the opportunity to testify at these hearings and urge action on this piece of legislation.

The CHAIRMAN. Thank you very much, Senator Abourezk.

Senator McGovern has come in now. Suppose you just stay at the table and we will hear Senator McGovern and then we will have some questions to put to you.

Senator McGovern, we are very glad to have you here——

Senator ABOUREZK. I do want to offer this booklet as part of the record.

The CHAIRMAN. That will be made part of the committee files. It will not be printed in the record.

STATEMENT OF GEORGE McGOVERN, U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator McGOVERN. Thank you very much, Mr. Chairman.

I am glad to join with Senator Abourezk, my colleague from South Dakota, in expressing our thanks to you and the members of the committee for setting aside this particular time to look into the problems of rural housing.

In 1970, Congress specifically recognized the need to develop a policy:

> To encourage the rational, orderly, efficient, and economic growth, development, and redevelopment of our States, metropolitan areas, cities, counties, towns, and communities in predominantly rural areas . . .

Congress called upon the President to assist in the development of such a growth policy through biennial reports to Congress. The first of those reports declined, in effect, to accept the assignment and expressed doubt that we could arrive at an agreed-upon national growth policy or that the Federal Government ought to attempt to do so. In short, it rejected the congressional finding of need and declaration of purpose.

Debating whether we can or cannot agree on a national growth policy ignores the basic fact that we have a growth policy already. It could perhaps be best characterized as an unthinking, piecemeal approach

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which operates without any real overall guidance and will continue to do so for as long as we allow it to. So the real question we are faced with is not whether or not we should have a growth policy, but whether we are going to continue this slipshod nonpolicy or replace it with a carefully studied and comprehensive set of programs geared to meet what we know to be the long-neglected needs of our constantly growing and shifting population.

In order to better illustrate the need for comprehensive programs such as the Emergency Rural Housing Act, we should spend some time reviewing the present nonpolicy in order to point out the many ways in which the needs of rural Americans are neglected. To begin with, it implicitly endorses continued concentration in metropolitan areas, and within those areas, continued stratification and segregation by race and income. In doing so it accepts the continued weakening of rural and small town America, leaving it disproportionately the residence of the young and the old and more importantly of the poor. With only 31 percent of the Nation's population, nonmetropolitan areas account for 32 percent of the children under 15, for 36 percent of the adults over 65, and for 44 percent of the poverty population. Per capita personal income in nonmetropolitan areas is only 73 percent as large as per capita personal income inside metropolitan areas.

Underlying this implicit policy of population concentration and stratification has been a willingness to allow the market mechanism an economic activity to dictate human and social values. The forces which have contributed to our de facto growth pattern have obviously been complex, and they have been both positive and negative in character. But we should not kid ourselves that public policy has been neutral and that Government programs have had no effect. I would suggest that among the more important impacts on growth and migration patterns have been a Federal farm policy which has long favored bigness and corporate agriculture more than the family farm; a Federal tax structure which did the same; and Federal housing policies which catered to urban developers and the almost total suburbinization of America.

To document a pattern in which Federal programs and policies discriminate against rural and small town areas, one need only look at the data compiled for Senator McClellan's Committee on Government Operations—data showing that 83 percent of our massive expenditures on defense, space, and atomic energy go into metropolitan areas; that 81 percent of our spending on health services goes into such areas; that nonmetropolitan areas with 46 percent of the low income elderly receive only 38 percent of social security and old age assistance benefits; and that overall per capita Federal expenditures in nonmetropolitan areas are only 85 percent as large as in metropolitan areas.

For additional evidence on the same pattern, we can look at the data compiled for the Joint Economic Committee on the distribution of the whole range of Federal welfare benefits. That study found the families at the rural sites ranked below those at the urban sites on almost every score, from health benefits to housing assistance.

In short, our implicit national growth policy, as reflected in the pattern of Federal programs and expenditures, has consistently shown rural and small town Americans to be the forgotten Americans. No-

where is that more evident than in our housing policies. With less than a third of the Nation's households, nonmetropolitan areas contain more than half of the Nation's worst housed. The incidence of substandard housing in metropolitan areas is 4 percent. In nonmetropolitan areas it is more than three times that—13 percent. And in the most rural areas it is almost four times that—15 percent. But the delivery of Federal housing assistance has been bent the other way. HUD statistics indicate that, through the end of last year, less than 24 percent of all the public housing units under annual contributions contract were in nonmetropolitan areas. A rural housing alliance study released last year reported that nearly half the Nation's counties, containing almost one-fifth of its population, had no public housing program at all. Other housing assistance programs, except for Farmers Home Administration, do little better. HUD program statistics for the 30-month period from January 1970 through June 1972—a period of record achievements in the volume of Federal housing assistance—show that less than one-fourth of the units were in nonmetropolitan areas. Even when one adds in the Farmers Home Administration program, rural and small town areas accounted for less than one-third of all Federal housing aid.

Obviously, the assistance doesn't always go where it is most needed. Neither does it always go to those who most need it. Census figures indicate that more than 60 percent of the households which are worst housed—those that occupy substandard units or units which are severely overcrowded—had incomes of less than $5,000. In nonmetropolitan areas; such families accounted for more than 68 percent of the worst housed. But the figures on those benefiting from Federal housing programs show that less than half of them—in both rural and metropolitan areas—had incomes of less than $5,000.

Let me turn for a moment to some statistics that concern me greatly because they represent the situation in my home State of South Dakota. I might preface these figures by saying that similar figures—equally distressing—are available for every State in the Union. To begin with, 27.8 percent of the State population lives in substandard housing; 19.8 percent of all housing units in South Dakota are substandard and 20,310 housing units lack some or all indoor plumbing.

Obviously, decent housing is a crying need that concerns a very sizable portion of the population. When you consider the fact that 68 percent of South Dakota's families earn less than $10,000 per year and 15 percent of the families in the State earn less than $3,000 per year, the need for Federal subsidy also becomes obvious. But the figures I quoted earlier in this statement show that the Federal housing policy has not been geared to the needs of low-income families. You might say, then, that in South Dakota we have a classic example of the effect of a Federal policy of benign neglect. That the need is so obvious and the response so pitiful is a painful reminder to all of us who form the laws and policies of our country that great inequities continue to exist, whether in the form of conscious policy or benign neglect.

It is in the hope of rectifying some of these great inequities, that Senator Abourezk and I, together with more than 20 other Senators, have proposed an Emergency Rural Housing Administration. We think it would offset at least partially the effects of our failure to deal more rationally than we have with the issue of national growth

policy. Instead of assuming that programs and institutions designed for urban environments can be administered so as to serve rural ones as well, our proposal squarely faces the fact that they have not and they will not and proposes instead a program designed for the rural and small town environment. Like Farmers Home Administration programs, it would clearly recognize the credit gap which afflicts that environment; but unlike the Farmers Home Administration programs it would use direct Federal credit rather than saddling the taxpayers with the cost of subsidizing private investors on behalf of those in need of housing assistance. Like the public housing program, it would recognize that housing those at the bottom of the income scale frequently requires a subsidy of both capital and operating costs; but unlike that program, it would not leave the Federal commitment to a decent home for all to the vagaries of local will and local ability. And, unlike either of these existing programs, it would seek to offset the institutional gap in rural and small town America by seeing to the establishment of local housing delivery systems which utilize the potential of the people most concerned—those in need of housing assistance.

Beyond its recognition that special action is required to counter the fruits of past discrimination, our bill has some basic underlying themes which I think are an essential part of what we are proposing; it accepts, frankly and realistically, the principle that the commitment to a decent home for every American family is a national responsibility. At the same time, it follows the example of the successful rural electrification movement in calling on local people themselves to play a critical role in solving their housing problem. It also focuses on those most in need and, in effect, says to the private sector and to the existing housing programs and institutions: "You serve all those you can; we'll start with those we know you can't serve and let's work our respective ways down and up until we meet in the middle." And finally, it asks Congress to make more than a rhetorical commitment—to do the thing that we have cause and will and strength and means to do—to underwrite a serious effort to wipe out indecent housing in rural and small town America.

Thank you very much, Mr. Chairman, and members of the committee.

The CHAIRMAN. Thank you, Senator McGovern.

I think I can safely say that this committee is interested in the question of rural housing, and I think it has demonstrated that interest. I would like to call your attention to the fact that the first rural housing program that I remember was one that I sponsored in 1949, and that was a direct loan program at 4-percent interest rate for 33-year term. It was at that time limited to farm housing. Only those living on farms were eligible. We authorized a direct borrowing authority of $250 million for these loans.

Later, it was converted over to an insurance program. Most of our direct loan programs, and we have had other direct loan programs, college housing, for instance; and housing for the elderly and various other programs, but over the years, all of those, I believe all of those, such as veterans housing, which was direct loan, over the years, all of those, I believe, have been changed to an insured or guaranteed program.

It is true that—it may be true, you don't know—but Senator Abourezk stated in his statement it would be cheaper to have it on a direct loan basis.

But there are budgetary reasons for preferring the other, and I think that is the reason that Congress has agreed to the proposal over the years of converting these government direct loan programs to insured programs.

The act of 1949, that is, title V of the Housing Act of 1949, that was written into the bill in the Senate Committee upon an amendment that I offered, has worked very well through the years. It has not been as large a program as I should like to see. There are certain dollar limitations to it. But in 1968, I believe it was, we provided a program for rural housing very similar to the 235 subsidized housing program and the 236 housing that were provided in urban areas.

It was that same year. We actually patterned rural housing programs after the 235 and 236 subsidy provisions that we wrote into the law.

I cannot cite the figures, but I have a feeling that it has been quite successful throughout the country. There may be some difficulties with it. It may not work as it should. However, Senator Abourezk, you, and both of you, I believe, made reference to the fact that most of the housing—you indicated that it went primarily to people of incomes over $6,000, I believe you said.

I was of the opinion that the 502 housing, under the home ownership program, I have felt all along that it went to low income people. In fact, I remember the first contract that was signed. It was right after the signing of the Housing Act of 1968. The act was signed on August 1, and the first contract was on August 19. I was there. It was at Triana, Ala., in my home county, and I know that it was for a low income family, and I have been under the impression that the program served the low income people quite well.

I am in favor of strengthening it all we can, but I do want to call attention to the fact that we have had housing programs for rural areas, and they have been getting better as time has gone along.

Senator ABOUREZK. Mr. Chairman, I wonder if I might just make a comment. As Senator McGovern indicated in his testimony, this is, I guess, called in the trade a residual housing program, intended to take up the slack anywhere that another Government agency is not operating to its fullest extent or not operating at all.

In other words, this program will operate only where something else is not happening. So, I would agree with the chairman that there are some good programs, but not nearly enough, and this one would take up that slack.

The CHAIRMAN. As I said, I realize that it may be that—in fact, I am sure—more is needed. That is our experience all along. We write a housing bill every year. We do it in order to strengthen those provisions which have shown themselves not to be adequate and also to adopt new ideas as they come along.

I did not want the record to rest on the statement, or understanding that we have not had some good rural housing programs. We have had one ever since 1949.

Senator Tower?

Senator TOWER. I just want to venture a comment, Mr. Chairman, and I think we realize on this committee that a lot of the urban problems are precipitated by our rural problems that create the flight of people from rural areas into the cities, and when we attack the rural problem we are also trying to mitigate what has turned out to be an urban problem.

I know in my own State so many young people go into town because they think there is greater economic opportunity there and find out when they get there that there is not. It think we should do all we can to keep people in the rural areas.

I would like to ask you about your definition of a small community, which I say is a subdivision that has a population of less than 25,000 people. I assume that could be a county or incorporated municipality—either one.

Senator MCGOVERN. Yes.

Senator ABOUREZK. It would mean any one city or municipality. I myself had not intended to mean a county. I don't know if anybody else places a different interpretation upon it.

Senator TOWER. So you actually meant any city under 25,000?

Senator ABOUREZK. Yes; that is my own personal interpretation of that.

Senator TOWER. Yes. What has occurred to me is that we have 254 counties in Texas. A couple of them don't have any corporate cities, or corporate towns, in them.

Senator ABOUREZK. They don't have incorporated towns in the counties?

Senator TOWER. No.

The CHAIRMAN. I believe that generally in the past, we have followed pretty much the census count on population and limited eligibility to the smaller towns and open country areas.

The population limit for a town used to be 2,500, and then went to 5,500, and I think 10,000 was the figure we agreed on last time.

Senator TOWER. I wondered if 25,000 wasn't a little outside. Perhaps it should be smaller, really, than that.

Senator ABOUREZK. If I might invite Senator Tower's attention to subsection 7 of section 3 of the bill, it also defines rural area, which means any open country or any other such place in the United States and also the small community which is not more than 25,000.

Senator TOWER. Right; thank you. I have no question, Mr. Chairman.

The CHAIRMAN. Senator Biden?

Senator BIDEN. Thank you, Mr. Chairman.

For either of the Senators, I wonder if you could help someone who doesn't have the experience of my two colleagues, of watching how these other programs have worked in the past. Give me an example, if you could, a specific example of how "John Smith," who is living in a substandard home in "Podunk, Del."—I was going to say South Dakota, but I figured you would resent it—is going to go about this? How will he go about the mechanics of his getting that home brought up to snuff, or a new home, under your bill? What will he do?

Senator ABOUREZK. We have to go to the rural housing association that has been formed. We have rural electric co-ops in Delaware——

Senator BIDEN. Yes, we do.

Senator ABOUREZK [continuing]. So it would be similar to that—local people forming the association who would deal with applications of the individual, who would come in with an application to purchase the home, and if they met the eligibility requirement stated in the legislation and which would be further defined by regulation, then they would either make the loan, or if he wanted to improve his home, they would go in that direction as well.

So, it is a relatively straightforward setup.

Senator BIDEN. Does that differ from the Farmers Home Administration housing programs that now exist? It has been pointed out to me that the housing, the Assistance Council, Inc., has published a report, May 1, 1973, and pointed out several things, and I refer to that.

It says that the most obvious benefit of the Farmers Home Administration housing programs is that they are meant to serve rural areas. Since its establishment in 1948, the FMHA has assisted 1 million rural families to obtain housing. Then it says that the farmers home program offers a model for Federal administration.

Foreclosure rate is less than 2 percent per 1,000 units, and dollar losses are less than one-half percent of loan funds. It says that much of the success of the farmers home program can be attributed to the direct loan financing.

Senator ABOUREZK. They make a direct loan, except it is not done through an association. It is done by local farm home people who work directly for the Federal Government.

If I am not mistaken, I think the eligibility requirements are higher than this bill contemplates.

Senator BIDEN. I apologize for being slow on this, but how will your bill make it easier for that John Smith to be accommodated?

Senator ABOUREZK. As stated in the bill, the Emergency Rural Housing Administration has the duty to provide minimal housing facilities for all eligible persons in rural areas in small communities, and then eligible persons as defined in the bill is up in subsection 5 and section 3, as an individual or family which lives or desires to live in a rural area or small community and cannot with reasonable certainty obtain minimum housing facilities by any other means, or by any means other than assistance under this act within 2 years after the date.

In other words, if he can't get help from Farm Home or a bank then he can come to this agency.

For the record, I think the bill, the intent of the bill, the statement of purpose, I don't see how it can be argued with.

Senator BIDEN. My only concern is whether or not we are—and I have no idea whether we are or aren't, and I am not passing a judgment—but the question is whether or not we are doing what seemed to be done here on occasion, and when I say here I mean the Congress, and that is overlapping on administrative functions that, rather than going in and cleaning up the old legislation to make it run better, sometimes we tend to try to, you know, make a new agency, a new facility by which we can accomplish our ends.

I don't know enough about the existing programs to ask you more incisive questions about how this differs.

Senator ABOUREZK. This would be contemplated as a separate agency within the Government. I don't see any danger of overlapping because it is such a great area for housing assistance to happen in that I am

certain that this Rural Housing Association or Administration would find plenty to do without interfering with the functions of either FHA or Farm Home.

Senator BIDEN. And you think it is best to get this, it might be referred to as a fresh start, rather than beef up FHA or Farm Home?

Senator ABOUREZK. Would you have to change the statutory authority for Farm Home if you want this kind of setup?

You are, in essence, changing it by establishment of a new agency with a different kind of authority.

Senator MCGOVERN. Senator Biden, could I comment further on that? I think it is important to note that the bill that Senator Abourezk and I and other Senators are offering is an emergency program. It is at catchup program that recognizes the great inequity in the progress we have made in urban areas on housing as over and against what has been done in the rural areas.

It is just a fact, recognizing what Senator Sparkman has said about the efforts that have been made in rural America, that they are still falling behind the housing effort we have made in the cities.

I don't know how else we explain the fact that with over half of the substandard housing in America in rural areas only one-third of the existing Federal housing program is reaching rural America, even if you add in the Farmers' Home Administration, plus HUD and everything else.

The fact remains that those rural areas that have the greatest need, over half of all the substandard housing, are getting only one-third of the Federal housing assistance.

So even recognizing there may be some validity to the points you make that this does seem to add on another Federal effort, it is an effort that is urgently needed and needed on an emergency basis to do.

Catching up over the next few years——

Senator BIDEN. Senator, I have no argument with you. I agree. I can see that even in my small State there is a drastic inequity that is apparent between the efforts we have made with regard to urban housing in our metropolitan area in the northern part of the State and the super substandard housing that exists in the rural southern parts of our State.

I was just questioning the procedure.

Senator MCGOVERN. I think the problem with adding more funds to the existing structure still leaves that imbalance.

We may need more money in both rural and urban America. Simply enlarging the overall housing authorization is not going to deal with the imbalance between urban and rural America. We need in my opinion a real crash program to catch up.

As Senator Tower said, this is a benefit to the cities, too, because it is not in the interests of our metropolitan areas for people to continue to flock into congested urban areas.

It costs more to deal with the problems after we export them there than it does to provide attractive alternatives in the rural areas.

Senator BIDEN. I agree Thank you very much.

I have no further questions, Mr. Chairman.

The CHAIRMAN. I don't want to belabor this point because I don't think anyone is more interested in seeing good rural housing than I am, but you made the statement to the effect that you were getting a

great deal more housing in urban areas, and I am talking about lower income people, than in the rural areas.

Actually, in 1972, the number of Government-supported units in rural housing—that is, the Farmers Home Administration housing—exceeded the amount in urban areas under section 235.

I don't believe many people would realize that is true, but that is what the statistics show. That is there were more under the similar program applied to rural areas than in the urban areas.

Senator McGovern. Mr. Chairman, if that is true it is an abrupt change from what the figures show up until 1972. The census figures on which at least part of my statement was based, the 1970 census figures, show that half of the counties have no Federal housing at all, and a high percentage of those are concentrated in the rural areas.

The Chairman. I agree with you as to the need, and I am for getting it done just as well as we can, but I don't want the impression given that we have not accomplished anything in rural areas.

Senator Abourezk. Was that more than the 235 program?

The Chairman. That is correct.

Senator Abourezk. I wonder if your staff would know what part of the entire housing program in urban areas 235 provides. What part of the entire housing program is that? I don't know. I am just asking perhaps the staff.

The Chairman. Well, of course, that is difficult to tell. First of all this program was set up only in 1968, and so it is relatively new. But there are so many different housing programs that it is very hard to get a comparison. I don't know how many.

Senator Abourezk. The statement I read out of that pamphlet could be entirely accurate, but still with the plethora of housing programs it could still mean a very small percentage when we go to rural America.

Senator Biden. Mr. Chairman, a fellow named Disraeli once said there are three kinds of lies: lies; damned lies; and statistics.

I think our argument about who is doing better or worse does not shed as much light on the problem as the reality of the situation. Everyone admits that rural housing is really in bad shape, and I don't know what that says, except confuses the issue.

Senator McGovern. I do think it is important to clarify the chairman's point here, and I think Senator Abourezk is on the right track, that while there may have been more low cost units assisted by FHA in rural areas than were built in urban areas under section 235, the fact is that under both programs less than half the money went to people with incomes of $5,000 a year or less.

In other words, whether you are talking about the cities or the rural areas, the low income families are getting less than half of the benefits of the total housing assistance.

The Chairman. I have not argued with any of that, and I have said we need a whole lot more, but I just don't want the record to indicate that we have neglected rural housing in the past. We haven't.

We have built programs and they are functioning, but they need to function to a much greater extent.

Senator Abourezk. I think we agree with that, Mr. Chairman.

The Chairman. All right. Thank you very much.

Senator McGovern. Thank you, Mr. Chairman, and members of the committee.

[Complete statements of Senators McGovern and Abourezk, and material from Governor Kneip of South Dakota follow:]

STATEMENT OF GEORGE MCGOVERN, U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Mr. Chairman, I want to thank the Housing Subcommittee for setting aside this day to investigate the problems of rural housing and in particular the solution Senator Abourezk and I have proposed. And I want to commend you, Mr. Chairman, for your continuing commitment to solve the many problems faced by rural Americans.

In recent years, we have begun to talk about national growth policy—whether we should have one, what it should be, how we should implement it. In 1970, Congress specifically recognized the need to develop a policy "to encourage the rational, orderly, efficient, and economic growth, development, and re-development of our States, metropolitan areas, cities, counties, towns, and communities in predominantly rural areas. . . ." Congress called upon the President to assist in the development of such a growth policy through biennial reports to Congress. The first of those reports declined, in effect, to accept the assignment and expressed doubt that we could arrive at an agreed-upon national growth policy or that the Federal government ought to attempt to do so. In short, it rejected the Congressional finding of need and declaration of purpose.

Debating whether we can or cannot agree on a national growth policy ignores the basic fact that we have a growth policy already. It could perhaps be best characterized as an unthinking, piece-meal approach which operates without any real overall guidance and will continue to do so for as long as we allow it to. So the real question we are faced with is not whether or not we should have a growth policy, but whether we are going to continue this slipshod non-policy or replace it with a carefully studied and comprehensive set of programs geared to meet what we know to be the long-neglected needs of our constantly growing and shifting population.

In order to better illustrate the need for comprehensive programs such as the Emergency Rural Housing Act, we should spend some time reviewing the present non-policy in order to point out the many ways in which the needs of rural Americans are neglected. To begin with, it implicitly endorses continued concentration in metropolitan areas, and within those areas, continued stratification and segregation by race and income. In doing so it accepts the continued weakening of rural and small town America, leaving it disproportionately the residence of the young and the old and more importantly of the poor. With only 31 per cent of the nation's population, nonmetropolitan areas account for 32 per cent of the children under 15, for 36 per cent of the adults over 65, and for 44 per cent of the poverty population. Per capita personal income in nonmetropolitan areas is only 73 per cent as large as per capita personal income inside metropolitan areas.

Underlying this implicit policy of population concentration and stratification has been a willingness to allow the market mechanism and economic activity to dictate the shape of our society—a willingness to let dollar values take precedence over human and social values. The forces which have contributed to our de facto growth pattern have obviously been complex, and they have been both positive and negative in character. But we should not kid ourselves that public policy has been neutral and that government programs have had no effect. I would suggest that among the more important impacts on growth and migration patterns have been a Federal farm policy which has long favored bigness and corporate agriculture more than the family farm; a Federal tax structure which did the same; and Federal housing policies which catered to urban developers and the almost total suburbanization of America.

To document a pattern in which Federal programs and policies discriminate against rural and small town areas, one need only look at the data compiled for Senator McClellan's Committee on Government Operations—data showing that 83 per cent of our massive expenditures on defense, space, and atomic energy go into metropolitan areas; that 81 per cent of our spending on health services goes into such areas; that nonmetropolitan areas with 46 per cent of the low income elderly receive only 38 percent of Social Security and Old Age Assistance benefits; and that overall per capita Federal expenditures in nonmetropolitan areas are only 85 per cent as large as in metropolitan areas. For additional evidence on the same pattern, we can look at the data compiled for the Joint Economic Committee on the distribution of the whole range of Federal welfare benefits.

That study found the families at the rural sites ranked below those at the urban sites on almost every score, from health benefits to housing assistance.

In short, our implicit national growth policy, as reflected in the pattern of Federal programs and expenditures, has consistently shown rural and small town Americans to be the forgotten Americans. Nowhere is that more evident than in our housing policies. With less than a third of the nation's households, nonmetropolitan areas contain more than half of the nation's worst housed. The incidence of substandard housing in metropolitan areas is four per cent. In nonmetropolitan areas it is more than three times that—thirteen per cent. And in the most rural areas it is almost four times that—fifteen per cent. But the delivery of Federal housing assistance has been bent the other way. HUD statistics indicate that, through the end of last year, less than 24 per cent of all the public housing units under Annual Contributions Contract were in nonmetropolitan area. A Rural Housing Alliance study released last year reported that nearly half the nation's counties, containing almost one-fifth of its population, had no public housing program at all. Other housing assistance programs, except for Farmers Home Administration, do little better. HUD program statistics for the thirty month period from January 1970 through June 1972—a period of record achievements in the volume of Federal housing assistance—show that less than one-fourth of the units were in nonmetropolitan area. Even when one adds in the Farmers Home Administration program, rural and small town areas accounted for less than one-third of all Federal housing aid.

Obviously, the assistance doesn't always go where it is most needed. Neither does it always go to those who most need it. Census figures indicate that more than 60 per cent of the households which are worst housed—those that occupy substandard units or units which are severely overcrowded—had incomes of less than $5,000. In nonmetropolitan areas, such families accounted for more than 68 per cent of the worst housed. But the figures on those benefitting from Federal housing programs show that less than half of them—in both rural and metropolitan areas—had incomes of less than $5,000.

Let me turn for a moment to some statistics that concern me greatly because they represent the situation in my home State of South Dakota. I might preface these figures by saying that similar figures—equally distressing—are available for every state in the union. To begin with, 27.8 per cent of the State's population lives in substandard housing. 19.8 per cent of all housing units in South Dakota are substandard and 20,310 housing units lack some or all indoor plumbing. Obviously, decent housing is a crying need that concerns a very sizeable portion of the population. When you consider the fact that 68 per cent of South Dakota's families earn less than $10,000 per year and 15 per cent of the families in the State earn less than $3,000 per year, the need for federal subsidy also becomes obvious. But the figures I quoted earlier in this statement show that the Federal housing policy has not been geared to the needs of low-income families. You might say, then, that in South Dakota we have a classic example of the effect of a Federal policy of benign neglect. That the need is so obvious and the response so pititful is a painful reminder to all of us who form the laws and poliices of our country that great inequities continue to exist, whether in the form of conscious policy or benign. I am reminded of the words of William Shakespeare as spoken by the most famous of all tragic characters, Hamlet:

> "Whether it be bestial oblivion Or some craven scruple of thinking too precisely on the event—a thought which quartered hath but one part wisdom and ever three parts coward—I do not know why yet I live to say this thing's to do. Sith I have cause and will and strength and means to do it." (IV, iv)

It is in the hope of rectifying some of these great inequities, and perhaps avoiding some of the pitfalls experienced by the fictional Prince of Denmark, that Senator Abourezk and I, together with more than twenty other Senators, have proposed an Emergency Rural Housing Administration. We think it would offset at least partially the effects of our failure to deal more rationally than we have with the issue of national growth policy. Instead of assuming that programs and institutions designed for urban environments can be administered so as to serve rural ones as well, our proposal squarely faces the fact that they have not and they will not and proposes instead a program designed for the rural and small town environment. Like Farmers Home Administration programs, it would clearly recognize the credit gap which afflicts that environment; but unlike the Farmers Home Administration programs it would use direct Federal credit rather than saddling the taxpayers with the cost of sub-

sidizing private investors on behalf of those in need of housing assistance. Like the public housing program, it would recognize that housing those at the bottom of the income scale frequently requires a subsidy of both capital and operating costs; but unlike that program, it would not leave the Federal commitment to a decent home for all to the vagaries of local will and local ability. And, unlike either of these existing programs, it would seek to offset the institutional gap in rural and small town America by seeing to the establishment of local housing delivery systems which utilize the potential of the people most concerned—those in need of housing assistance.

Beyond its recognition that special action is required to counter the fruits of past discrimination, our bill has some basic underlying themes which I think are an essential part of what we are proposing; it accepts, frankly and realistically, the principle that the commitment to a decent home for every American family is a national responsibility. At the same time, it follows the example of the successful rural electrification movement in calling on local people themselves to play a critical role in solving their housing problem. It also focuses on those most in need and, in effect, says to the private sector and to the existing housing programs and institutions: "You serve all those you can; we'll start with those we know you can't serve and let's work our respective ways down and up until we meet in the middle." And finally, it asks Congress to make more than a rhetorical commitment—to do the thing that we have cause and will and strength and means to do—to underwrite a serious effort to wipe out indecent housing in rural and small town America.

STATEMENT OF JAMES ABOUREZK, U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Mr. Chairman, if we are truly intent upon providing a decent home in a suitable living environment for every American family, then the time has passed when the needs of rural America can be put on the backburner.

It would be unreasonable to expect a national policy to succeed if the needs of a third of the population were overlooked during the design of that policy. But, too often in the design of our major social legislation, that is what happens. Rural America gets overlooked.

The statistics tell the story: rural America has a third of the population, 60% of the housing need, median family income which is 77% of that in metropolitan areas, 44% of the nation's poverty families and has received possibly only a fourth of total Federal housing resources.

Across the board, from housing to health care to education and transportation, from the location of Federal facilities to the distribution of employment opportunities, rural America has been getting the short end of the stick.

Rural America is poorer and older. It has fewer doctors, less indoor plumbing, higher infant mortality rates, a more severe nutrition problem and triple the incidence of substandard housing when compared to urban America. Nearly every social index shows rural America trailing behind the cities.

These facts seem to be understood, and likewise it seems to be understood that all of America is paying the human and social cost of rural America's stepsister status, yet somehow these understandings are rarely translated into Federal policy. Housing is a perfect example.

On the one hand you have the Department of Housing and Urban Development, which is overwhelmingly urban-oriented but which has somehow managed to put 21% of its assisted units in rural America.

On the other hand you have the Farmers Home Administration, which has responsibility for a dozen other diverse programs in addition to housing, which is limited to places of less than 10,000 population and which has never had the full range of tools available to the cities through HUD.

To put it bluntly, the cities have a single agency which is responsible for seeing that the promise of a decent home for every family is attended to, but in rural areas the policy is fragmented, the agency which one might suppose to be in charge has many other things on its agenda as well and labors under debilitating administrative and statutory limitations.

To be even more blunt about it, urban America has a very sophisticated housing delivery system. Rural America does not.

Rural America lacks an adequate supply of mortgage credit. It lacks the institutional setup to deliver that credit. It lacks local financial institutions willing or able to deliver assisted housing credit on the scale necessary; we

are limited not only by the lack of those institutions, but by their conservative lending policies and their geographic distribution. If you take the sum total of rural America's housing delivery system, including its enlightened private institutions, its nonprofits, its housing authorities, and what state and local efforts there are, you still come up with an incredible gap.

When you take into consideration the additional factor that there are nearly one million inadequately-housed rural American families with an estimated average rent-paying capacity of $14 a month, the gap becomes even more incredible.

Federal housing policy has not taken these gaps into account. Now that we are undertaking to overhaul two decades of housing programs, I respectfully submit that the time has come to do something about it.

Rural America needs a comprehensive housing delivery system. It's as simple as that. We do not have one now, and we will not be able to fulfill the 1949 promise until we do have one.

On Monday, July 16, Senator McGovern and I introduced the Emergency Rural Housing Act of 1973 with Senators Gale McGee, Ted Moss, Dick Clark, Jennings Randolph, Edward Kennedy, Mark Hatfield, Hubert Humphrey, Lee Metcalf, Ernest Hollings, Dan Inouye, William Hathaway, Mike Mansfield, Marlow Cook, Harold Hughes, Phil Hart, Quentin Burdick, Birch Bayh, Frank Church, Ed Muskie, and John Tunney as co-sponsors.

It is similar to S. 361, which we introduced earlier this year and which Senator McGovern introduced last year. It is similar to the original version which I introduced last Congress in the House.

What this bill does is establish a housing delivery system for rural America, for rural areas and towns of under 25,000 population.

It borrows from the model of the REA to establish a housing delivery system in rural America. It would cause the creation of Rural Housing Associations—very similar to REA co-ops—at the local, area or state level—to function as housing delivery institutions with area-wide coverage responsibilities. Those associations, in turn, would have access to direct Treasury credit, subsidies and direction provided by the Emergency Rural Housing Administration.

The Rural Housing Associations at the field level would be controlled by those they serve—a principle fundamental to the success of the REA program. Very simply, people who are eligible for the program and those served by it would elect the boards of directors which run it. It's the same concept as the REA co-ops, one of proven accomplishment in rural areas, one highly acceptable there, one which assures a high degree of local control and citizen participation.

The Associations would have great flexibility to work with any and all existing institutions—including Farmers Home, including HUD, including existing non-profits and local housing authorities. The Associations would simply agree to serve those families in need who would not be served by the existing institutions. This, too, is a basic REA concept—areawide coverage. The associations, in effect, would have a residual responsibility to fill our present gaps, by using a full range of tools and broad flexibility.

HUD has already spent over $100,000 on a project which indicates the workability of this kind of delivery system concept in rural America. Two years ago, it made a research grant to Basin Electric Power Cooperative in Bismark, North Dakota, to see if that cooperative which generates and wheels electric power to more than 100 member rural electric cooperatives in the upper midwest, could function in the kind of catalytic role we invision in this legislation. The results are phenomenal success. Working through the local REA co-ops and laboring under all of the present shortcomings and constraints in present housing programs that one project, with only two full-time people, has been able to bring more than 2500 new housing units into being.

I ask permission to insert the final report of that demonstration project in the record of proceedings of this Committee. If you read the report, you will learn that the kind of delivery system we are talking about has been tested and I would call the results a striking success.

Basically, all they were doing in that project was spreading the word about housing, educating, and matching local organizations to what limited federal resources were available. Our legislation seeks to expand on that experience by creating this sort of delivery system all over the country, and by equipping it directly with capital and subsidy mechanisms to provide what the existing system lacks.

At the national level, the bill creates the Emergency Rural Housing Administration. We called it "emergency" because we stipulated a five-year deadline for it, and wrote borrowing authority and appropriations adequate to meet the estimated need into the act. Now, I realize that may trouble some people, but we wanted, in this legislation, to define the scope of what it would take to do the job.

It is to be an independent agency, because this is the quandary we were in: if you give it to HUD, you are up against that overwhelming, dominating urban bias, which characterizes the agency; if you give it to Farmers Home, you are in that administrative bottleneck again, and there is little likelihood that you will ever get out of it. It is a predominantly farm-oriented organization, one set in its ways, a subordinate agency of still another predominantly farm-oriented organization.

At this point I would like to quote briefly from that Basin Electric report. The report said that "HUD operations in rural areas fall basically into the category of 'unused Federal programs.'" It noted further that the Farmers Home Administration has a definite bias in favor of those "with better incomes," whereas the major problem is shelter for low-income people.

One further comment on the fact that our legislation envisions an independent agency: we have learned that the consolidation of the executive branch into fewer and fewer giant departments, while looking good on paper, does not always function in the best interests of everyone concerned. When the Executive branch centralizes, power gravitates toward the White House and accountability to the Congress diminishes. Moreover, when you have really huge departments, such as HEW, you begin to hear people telling you that no man alive can administer them effectively.

The legislation creates a Rural Housing Investment Fund capitalized by Treasury—borrowings to provide capital for rural housing—rental and homeownership—financed by the Emergency Rural Housing Administration. We put this in the bill for three reasons: the taxpayers are entitled to the savings of direct Treasury financing, as reflected in the recent GAO report about the expensiveness of the interest subsidy programs; private capital and private lending institutions are not in rural America on anything near the scale necessary. To the extent that they are there, this agency does not seek to replace their function but rather to address itself to that part of the housing need which they cannot or will not serve. Third, to call attention to the fact that if this government kept its books on a capital budget system, these investments would appear on the books as assets. Any banker would show these housing loans on his books as an asset. Our thinking is that the taxpayers deserve the same kind of rational bookkeeping.

The design of the homeownership subsidy program embodied in the bill is modeled after one used in Scandinavian countries, which for want of a better word we call the Norwegian plan. Suppose you had a family for whom homeownership is desirable, and the cost of a modest house for them would be $12,000 but their income is too low to support a $12,000 note even at 1% interest. In that case, up to half of the principal would be secured by a first mortgage at an interest rate as low as 1%. The first mortgage would be written for forty years, and upon payment of it, the second mortgage becomes payable. In case of death or sale, the full mortgage becomes payable.

No homeowner would be required to pay more than 20% of his adjusted annual income for principal, interest, taxes, and insurance, but a borrower would be given the voluntary option to pay more if he so desired. This makes sense, because many of our poorly-housed poor are already paying much more than that for inadequate housing.

The bill provides for rehabiliation grants not in excess of $3,500 for homeowners who are too poor to go under the Norwegian plan, and authorizes a billion dollars in appropriations for them.

The bill puts a priority on homeownership and in effect reserves rental housing for the very poorest families, those who incomes are so low that if they were homeowners and received even the most generous subsidies, their incomes would not pay operation and maintenance costs. The section is very simple. It says that rents shall bear a reasonable relationship to the income of eligible persons, and in no case should rent including utilities exceed 25% of income. It authorizes annual contributions contracts through the Rural Housing Associations, provides 40-year, interest-free financing for the construction of the rental units, and authorizes repayments to the government to the extent that rent collections exceed operating and maintenance costs of the projects.

In short, we have provided the agency with a wide range of flexible tools—including homeownership, rehabilitation and rental financing.

I am not unaware of difficulties in passing legislation of this nature.

I realize that there will be strong opposition to direct Treasury financing of housing, despite the savings it represents to the taxpayers.

I realize that Congress under pressure not to authorize new spending programs, particularly if it would appear to involve tax reform.

I realize that urging the creation of an independent agency is swimming upstream against the habits of recent decades to consolidate and to centralize power within the Executive branch.

But I would submit to you, with all due respect, that there are things in this bill which we absolutely must have and which I think we can achieve in this year's legislation.

First and foremost among them is the development of a comprehensive rural housing delivery system. We almost must design a delivery system which covers the gaps left open by our previous shortcomings and by the very character of rural America.

That delivery system should be equipped with a full range of tools. It should take into account the generally lower rent-paying capacity of rural America. It should take into account the disproportionate share of poverty and elderly households found in rural America. It should have tools at its disposal enabling it to serve everyone at the lower income levels. It should create a presence in rural America which is at least trying to work on the problem, and which covers every nook and cranny of rural America. It should be equipped with its own financing mechanisms, of whatever kind the Congress deems appropriate, instead of merely another "add-on" piggy-back arrangement which creates the local institutions but has to turn to a third party for its financing and subsidies. And there should be somebody in Washington, whether he's an Undersecretary of HUD, an Undersecretary of USDA or the Administrator of an independent agency, who has comprehensive and final responsibility for rural housing. We have too many cooks in the kitchen. My first preference obviously would be a single-purpose agency dedicated solely to rural housing, but please, somewhere, let us put one man in charge of rural housing and let us equip him with a set of institutions covering every corner of rural America and with whatever money and mechanisms we finally make directly available to him.

I do not think it is impossible to write that kind of legislation, I do not think it is impossible to pass it, and I am sure it can be made to work.

There are three other concepts in this bill which I think are important. One is giving a prospective homeowner a voluntary option to pay more than 25% of his income for housing. There are a great many people living in rural shacks paying half, if not more, of their cash income for housing, and if that same amount would put them in a decent house, then there is no reason in the world not to allow them to do it.

The second is allowing a man to build a minimum house if that's all his income will support. The way it is now, there are too many shack-dwellers, and I could point to them on any reservation in South Dakota, who do have the income to support some kind of decent housing, but not enough to support an FHA-type $25,000 ranch house, who are living in open country or a small community and who would cry for joy at the chance to get a small, weather-proof, water-tight, well-heated, safe, solid home with plumbing. We should not force anyone to take such a minimum home, but it is just plain cruel to insist that he must keep his family in a rotten shack until he can afford a fancy ranch house. If you make the minimum home concept a reality, you can count on people to fix them up, to enlarge upon them, as their income allows. It is happening in Puerto Rico on a dramatic scale.

The third concept I would argue for is letting a family live where they choose to live. I reject the growth center sociology. I know of too many elderly people who would prefer to live where they are, on their land, where they have spent all their lives rather than move into a growth center to achieve decent housing. In other words, they would trade their health for the right to live where they want to live. I do not think we should force them into that choice. I do not think we need to.

Mr. Chairman, there are possibly as many as three million American families in housing need who live within range of the Emergency Rural Housing Administration as we have defined it.

Perhaps one tenth of them have incomes over $10,000 a year.

About a third of them have incomes somewhere between $4,000 and $10,000 a year.

Roughly 660,000 of them have incomes between $2,000 and $4,000 a year.

And nearly a million of those rural and small town families in housing need have incomes below $2,000 a year, a group which includes a great many of our poorly-housed senior citizens.

There is no cheap way to provide housing for all of them; that is a matter of reordering our national priorities.

There is no cheap way to provide housing for all of them. We have a gross national product of over a trillion dollars, and I submit that the time has come to provide a decent home for every American family, including those in rural America.

STATEMENT OF RICHARD F. KNEIP, GOVERNOR OF THE STATE OF SOUTH DAKOTA

Mr. Chairman and members of the Senate Banking, Housing and Urban Affairs Committee:

I am Richard F. Kneip, Governor of the State of South Dakota. I submit this statement on behalf of S. 2190, which would create the Emergency Rural Housing Administration, and respectfully request that my remarks be made part of the permanent record regarding this legislation.

I first wish to compliment South Dakota's Senator McGovern and Senator Abourezk for sponsoring this measure: their action serves only to enhance their fine record of representing the best interests of the people of this State, and demonstrates again that their concerns are rooted in a quest for a decent, humane and just society.

As you know, South Dakota is a basically rural State, and as such, is faced with the full panoply of problems besetting all rural areas of the country and all areas economically dependent upon agriculture. We have a disproportionately higher percentage of the population as elderly, we have a disproportionately high percentage of the population as poor, we have difficulties in providing and delivering adequate health facilities and care, we have next to no public transportations, we have a declining farm population. The list goes on and on. In fact, South Dakota reached its population peak in 1929, and it is only recently that there is evidence that the State is beginning to grow again in population and that the economy is beginning to pick up steam.

It has been the policy of my administration to face these problems squarely and do whatever the State can to provide more adequate services to its citizens. High among my personal priorities has been the revision of an inequitable tax system, the reorganization of State government for more effective service, the promotion of tourism and economic development and the provision of adequate social services to those in need.

But the problems remain. I am convinced that South Dakota and other rural States have these problems at least in part not because of any longstanding lack of concern or effort on the State's part, but because of lack of interest, a lack of foresightedness, a lack of coherent policy for the rural areas by the Federal Government. We have had farm policies which too often have fostered and supported huge, corporate farms to the neglect of small farmers and towns. We have had urban renewal, but no rural renewal. We have had model cities, but no model towns. We have had special impact programs, when the Federal Government makes but a negligible effort to spread Federal facilities beyond the cities and their suburbs. I have heard this general stance of the Federal Government referred to as "metropollyana", an apt description.

I am suggesting that the Congress and the executive branch must begin to distribute Federal resources more equitably and that the redevelopment of rural America must be a high priority item for Federal action. The States cannot do it by themselves, any more than can the cities. I do not understand how rural areas can be treated as a misbegotten foster child when, in fact, they have given birth, mothered and sustained the values which represent all that is good in this society.

I can think of no area where the disparity of treatment between urban and rural areas is greater, nor where needs are more pressing than in housing. I

have read where over 75% of all housing assistance provided by the Department of Housing and Urban Development since the inception of the programs it administers has gone to the urban areas. That statistic is certainly borne out in South Dakota's experience. Of the subsidy assistance provided under the section 235 program, 74% has gone to Sioux Falls and Rapid City, the State's only two urban areas. For section 236, the record is worse: 98% of the assistance has gone to these two cities. This disparity in face of the fact that 82% of the substandard housing is outside these two areas. For public housing, the record is nearly as bad: of the units in process and under management, 36% are, or will be, in Sioux Falls and Rapid City.

(An interesting note: The public housing program has been around for about 40 years, yet South Dakota, while having .5% of the Nation's population, has received *less* than two tenths of 1% of the public housing units produced.) Within the State, therefore, the pattern is that the urban areas get the assistance, and the rural areas have the need. As it has been pointed out by others, 60% of the country's substandard housing is outside the urban areas. South Dakota's situation and experience conform with the national pattern.

The Farmers Home Administration is the only Federal agency in the State which is mandated to provide housing assistance only to rural areas. Farmers home, particularly over the last two or three years, has done a good job of doing this. The committee and Congress ought to understand, however, that Farmers Home had, before the freeze on housing subsidy programs (which will have disastrous effects in South Dakota by the time it runs its course), only limited tools at its disposal. It costs a minimum of $20,000 to build a modest house anywhere in the State. Utilizing the profoundest interest subsidy available under Farmers Home's homeownership program, a family of four would have to have *at least* $6,750 annual income to buy this house. 36,154 families, or 22.3% of all South Dakota families, earn less than $4,000 per year. Farmers Home rental program serves the same general income range as its homeownership program. Thus, the only programs designed specifically and exclusively for rural areas are inadequate for the task at hand.

I submit that when 17.4% of all occupied units in the State are substandard, when over 20,000 units lack some or all indoor plumbing, when the existing Federal programs will not or cannot do the job, when there is such a disparity in the distribution of resources between urban and rural areas, there is a housing crisis in the rural areas of South Dakota. I submit that this crisis should be treated as an emergency. I therefore support the emergency rural housing act and urge the committee and Congress to take favorable action on it, quickly. This legislation will not only provide housing assistance where it is desperately needed, but will also begin the process of revitalizing rural America. It will begin to redress the inbalance which has existed between urban and rural areas in terms of Federal assistance.

During South Dakota's 1973 legislative session, I supported the enactment of the South Dakota Housing Development Authority, out of a recognition of the problems I have discussed here. My hope was that the authority with the assistance of the Federal housing programs, could begin to address these problems. I can envision the authority which is just beginning to undertake its activities, and the Emergency Rural Housing Administration working hand in hand to build better communities for the people of South Dakota.

I am attaching, for the record, a copy of a paper produced by my staff, entitled "Data on Housing and the Use of Federally Subsidized Housing Programs in South Dakota."

DATA ON HOUSING AND THE USE OF FEDERALLY SUBSIDIZED HOUSING PROGRAMS IN SOUTH DAKOTA

I. A Statistical analysis of the need

The following data were taken from the 1970 Census:

1. In the chart below, the number of substandard units for each Model Rural Development Planning District and for the State is arrived at by adding the total number of units without some of all plumbing to the total number of units which are overcrowded, but with all plumbing facilities.

NUMBER OF SUBSTANDARD HOUSING UNITS IN SOUTH DAKOTA

District	Total occupied units	Without some or all plumbing		1 or more per room		1.51 or more per room		Overcrowded with all plumbing		Substandard units	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
I	30,061	3,264	10.8	1,537	5.1	315	1.0	1,633	5.4	4,897	16.2
II	45,038	3,071	6.8	2,515	5.5	480	1.0	2,802	6.2	5,873	13.0
III	28,875	3,909	13.5	1,707	7.4	575	1.0	1,773	6.1	5,682	19.6
IV	35,243	3,636	10.3	2,140	6.0	682	2.0	2,324	6.5	5,960	16.9
V	22,892	3,250	14.0	2,184	9.5	1,419	6.1	2,571	11.0	5,821	25.0
VI	38,354	3,180	8.2	2,890	7.5	1,602	4.1	3,411	8.9	6,591	17.4
State total	200,463	20,310	10.0	12,973	6.5	5,073	2.5	19,514	9.7	34,824	18.1

2. 27.8% of the state's population lives in the 34,824 substandard units.

3. 49 counties of the state's 67 have between 11% and 20% of their occupied units as substandard. 9 counties have between 21% and 30% substandard. 5 between 31% to 40%, 2 between 41% and 50%, and 1 county has less than 10% substandard, and it has 9%.

4. 23% of the state's population lives in Minnehaha and Pennington Counties, but only 17% of the substandard units are in these areas (this is pre-flood information—it is likely that there are fewer substandard units in Rapid City now, since many of them washed away. This is not to say these areas do not need assistance—they obviously do, particularly Rapid City).

II. Why people have trouble acquiring decent housing

It boils down to a pure case of economics.

1. The federal government and private lending institutions figure that families should not pay more than 20 to 25% of their adjusted incomes for housing. For the federal programs, income is adjusted in the following manner:

	Example
Gross income	$10,000
Minus 5 percent	—500
Minus $300/minor child	—600
Multiplied by .20	$8,900
Plus amount available for housing	×.20
	$1,780

2. The current rates on conventional mortgages, generally, are 10 to 20% downpayment, a twenty year term, and 8% interest. Assuming $500 per year for property tax and $120 per year for insurance, it would cost a homebuyer $2,264 per year for a new modest, 960 square foot, $20,000 house (if he can find one that cheap), assuming no downpayment. If he paid 20% down, his yearly cost would be $1,935, excluding maintenance and personal property tax.

3. 68.1% of all famiiles in South Dakota earn less than $10,000 per year. An additional 10.9% earn between $10,000 and $10,999. Using the adjusted income formula above, families with children in the $10 to $11,000 category are only marginally able to afford the $20,000 house. Those families with less than $10,000 per year would have a tough time buying it if they were able to do it at all.

The Farmers Home Administration and its Housing Activities in South Dakota

I. GENERAL BACKGROUND

The Farmers Home Administration (FmHA) is an agency of the U. S. Department of Agriculture. It was established in 1946 as the successor to the Farm Security Administration. FmHA administers a broad range of programs, including farm operating loans, water and sewer systems loans and grants, recreation loans and housing programs.

FmHA is a relative newcomer to the housing business. In 1949 it was authorized to make housing loans to farmers. In 1954, its authority was broadened to give it the power to make loans to any qualified borrower in rural areas and it was given more housing programs to administer, including its rental housing program. It wasn't until 1968, however, that FmHA became involved in housing in a big way and that it was given authority to administer its major subsidy programs.

FmHA is authorized to operate its housing programs in communities and rural areas of 10,000 population or less. The major subsidy mechanism FmHA has is the interest credit program. (The interest rate, not the cost of constructing the unit, is the dominant factor in determining housing costs: repayments of a 30 year loan at 8% interest will total ⅔ for interest, ⅓ for principal.) The interest credit program allows FmHA to reduce the interest on a loan to as low as 1%, gives the ability to pay (using the adjusted income formula) of the occupant of an FmHA-financed unit.

The two principal interest credit programs are attached to the Section 502 for homeownership and the Section 515 for rental. Under both these programs, the borrower can buy existing units, build or rehabilitate. The maximum interest rate is 7¼%, up from the 6¼% of 1969.

II. NOTES ON ATTACHED DATA, FURNISHED BY FMHA

1. FmHA activity in housing has accelerated rapidly in the last couple of years: in FY '69, FmHA made a total of 388 502 loans, in FY '72 it made 793, and in ½ of FY '73 it made 617. In fact, in FY '73, it had made ¼ of the total 502 loans made in the previous four FYs, as well as ¼ of the total interest credit loans made in the previous four FYs. The same holds true for the 515 program, where FmHA made loans for 5 units more in ½ of FY '73 than it did in FY '72.

2. The amount of interest credit subsidy FmHA has provided is not available in the attached data. FmHA calculates, however, that an average of $593 was provided on the interest credit loans it made in FY '72.

3. The average loan amount for 502 for FY '69–'73 is $9,908. This very low figure can be accounted for by a combination of three factors: a) the average is for loans made in 1968, as well as 1973. There has been, obviously, an increase over these years in the cost of land, material and construction. b) these totals also include the loans made for rehabilitation to existing housing, the amounts of which would be substantially less than for new construction. The number of such loans is unascertainable from the data. c) the totals also include the loans made for the purchase (and repair) of existing housing, the amounts of which are generally lower than for loans for new construction.

4. The obvious disparities in housing loan activities among counties is *not* related to need, and only to population in a minor way. The amount of loan activity in a county is more closely related to local FmHA officials' interest in, knowledge of and experience in housing, his work load with farm operating loans and other programs; and the degree to which the general public knows of FmHA's housing services within an area.

SEC. 502 HOMEOWNERSHIP LOANS BY COUNTY—ARRANGED IN PLANNING DISTRICTS

[Loan amounts in thousands]

County	Fiscal year 1969–72				Fiscal year 1973 to Jan. 12			
	With interest credit		Total loans		With interest credit		Total loans	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
I. DISTRICT NO. 1								
Brookings	5	$47	89	$681	4	$66	9	$113
Clark	2	37	43	289	4	47	18	109
Codington	0	0	24	187	1	20	2	33
Deuel	5	76	65	542	3	51	19	241
Grant	6	75	88	930	0	0	9	77
Hamlin	0	0	18	222	0	0	4	25
Lake	1	2	27	252	0	0	5	44
Kingsbury	0	0	24	190	1	11	4	23
Miner	0	0	21	168	0	0	2	40
Moody	0	0	20	168	1	19	4	24
Total	19	227	419	3,629	14	214	76	729
II. DISTRICT NO. 2								
Clay	5	54	23	250	5	70	20	260
Lincoln	14	196	40	455	3	48	19	157
McCook	7	104	48	390	2	38	10	72
Minnehaha	24	372	70	818	13	218	28	394
Turner	9	134	34	379	2	36	12	145
Union	21	327	77	796	7	102	21	246
Total	80	1,187	292	3,088	32	512	110	1,274

SEC. 502 HOMEOWNERSHIP LOANS BY COUNTY—ARRANGED IN PLANNING DISTRICTS—Continued

[Loan amounts in thousands]

County	Fiscal year 1969-72				Fiscal year 1973 to Jan. 12			
	With interest credit		Total loans		With interest credit		Total loans	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
III. DISTRICT NO. 3								
Aurora	0	0	19	167	1	9	8	89
Bon Homme	3	41	27	203	2	20	18	130
Brule	2	30	31	300	0	0	6	47
Charles Mix	7	96	44	383	2	33	13	87
Davison	0	0	25	209	0	0	1	5
Douglas	2	17	32	250	1	20	3	36
Gregory	0	0	30	269	1	9	17	143
Hutchinson	6	64	76	526	0	0	20	148
Hanson	0	0	35	225	0	0	5	31
Jerauld	1	8	31	252	0	0	2	17
Sanborn	1	5	23	195	0	0	3	11
Yankton	0	0	8	35	0	0	3	13
Total	22	261	381	3,014	7	91	99	757
IV. DISTRICT 4								
Beadle	1	14	39	426	1	6	4	24
Brown	14	218	85	896	6	109	20	248
Day	7	82	56	523	0	0	15	127
Edmunds	11	152	97	731	0	0	12	89
Faulk	2	29	30	230	0	0	8	53
Hand	12	153	44	339	1	17	8	44
Marshall	4	59	44	434	1	16	16	117
McPherson	7	86	44	373	5	66	10	102
Roberts	6	76	81	581	4	49	23	227
Spink	40	663	86	1,188	1	14	11	83
Total	104	1,532	606	5,721	19	227	127	1,132
V. DISTRICT 5								
Buffalo	0	0	5	34	0	0	0	0
Campbell	2	16	14	109	0	0	1	4
Corson	1	8	23	187	0	0	3	34
Dewey	1	5	35	404	1	14	8	76
Haakon	3	27	20	124	0	0	3	25
Hughes	10	162	45	534	3	49	17	218
Hyde	4	54	25	223	1	15	4	47
Jones	0	0	6	79	0	0	1	19
Lyman	1	18	16	155	0	0	0	0
Mellete	3	49	10	112	0	0	2	40
Perkins	11	173	31	393	6	108	11	153
Potter	1	11	61	580	1	15	10	95
Stanley	3	35	22	267	3	48	5	71
Sully	7	114	33	337	0	0	6	44
Todd	1	11	9	97	0	0	5	88
Tripp	3	29	80	836	3	23	23	182
Walworth	4	59	14	176	4	55	7	91
Ziebach	0	0	8	90	0	0	3	34
Total	55	771	457	4,737	22	327	107	1,221
VI. DISTRICT 6								
Bennett	7	96	35	364	1	19	2	41
Butte	42	673	65	944	8	134	16	199
Custer	4	73	9	115	1	18	5	63
Fall River	13	178	62	583	0	0	13	119
Harding	6	100	12	146	0	0	1	2
Jackson	1	8	9	192	0	0	2	25
Lawrence	39	687	54	916	7	111	11	130
Meade	34	604	59	869	3	53	18	245
Pennington	9	164	24	343	7	128	25	261
Shannon	0	0	2	36	0	0	0	0
Washabaugh	0	0	8	77	0	0	0	0
Total	155	2,583	339	4,508	27	463	93	1,085
State total	435	6,561	2,494	24,697	121	1,884	614	6,098

Note: Total 502 loans, fiscal year 1960–73—3,108; total amount loaned—$30,795,000. Total interest credit loans, fiscal year 1969–73—556. Total amount loaned on interest credit loans—$7,745,000; percent of interest credit loans of total—17.8 percent. Average 502 loan amount—$9,908.

RURAL RENTAL HOUSING LOAN PROGRAM ACTIVITY SINCE INCEPTION OF PROGRAM TO JAN. 8,1972

	Interest subsidy loans			Noninterest subsidy		
	Number[1]	Loan amount	Units	Number[1]	Loan amount	Units
District I:						
Brookings	1	$45,000	4	2	$94,750	
Clark	1	197,400	16	0		
Codington	1	48,000	4	0		
Deuel	1	41,500	4	0		
Grant	1	46,000	4	0		
Hamlin	4	295,220	24	0		
Kingsbury	1	188,500	20	2	87,400	
Lake	1	50,000	4	0		
Moody	1	101,000	8	1	42,000	
District II:						
Clay	0			1	190,000	
Lincoln	1	42,000	4	1	39,000	
McCook	1	42,500	4	1	20,000	
Minnehaha	1	102,000	10	1	180,000	
Turner	2	230,800	20	1	48,450	
Union	2	493,400	40	0		
District III:						
Aurora	1	45,000	4	0		
Bon Homme	1	90,000	8	1	48,000	
Charles Mix	1	47,500	4	0		
Hanson	2	208,000	16	0		
Hutchinson	2	247,640	24	1	22,500	
Jerauld	0			1	35,000	
Sanborn	2	292,860	28	0		
Yankton	2	134,000	12	0		
District IV:						
Beadle	1	57,500	4	0		
Brown	2	58,500	6	1	35,350	
Day	3	240,000	20	0		
Edmunds	1	149,600	12	1	41,450	
Faulk	1	48,500	4	1	36,000	
Hand	0			1	33,000	
Marshall	1	42,500	4	0		
McPherson	1	45,000	4	1	45,250	
Roberts	2	91,000	8	0		
Spink	0			1	46,370	
District V:						
Haakon	1	50,000	4	0		
Hyde	1	47,000	4	0		
Perkins	1	49,000	4	2	19,500	
Potter	2	129,000	12	0		
Stanley	0			3	130,00	
Sully	1	47,000	4	0		
Tripp	0			8	224,100	
District VI: Lawrence	1	234,000	16	1	46,000	
State total	49	4,277,740	368	33	1,464,120	

[1] Indicates number of borrowers.

Source: Farmers Home Administration, Huron, S. Dak.

Current Status of Public Housing in South Dakota

I. GENERAL BACKGROUND

The public housing program is the oldest of the federally subsidized housing programs, established in 1937 by Congress, and is the program which provides the profoundest subsidies to low-income families. A necessary prerequisite for the use of the public housing program is the establishment, by a local unit of government, of a housing and redevelopment commission as authorized by SDCL 11–7.

In general, the public housing program operates in the following manner: the housing and redevelopment commission assesses the need for public housing within its jurisdiction and submits an application for units to HUD. With HUD approval of the number, type and location of the units, the housing and redevelopment commission and HUD enter into what is known as an Annual Contributions Contract (ACC). With the ACC in hand, the housing and redevelopment commission floats revenue bonds to finance the construction of the units. The ACC from

HUD retires the principal and interest on the bonds and, perhaps pays for part of the operating costs of the commission. Tenants pay no more than 25% of their adjusted income in rents, which cover the balance of the commission's maintenance, management and operating costs. There are a number of variations and modifications on this basic theme, including a leasing program, through which ownership of the units remains in private hands and the units remain on the tax rolls.

If the assumption is made that families earning less then $4,000 per year provide the major part of the clientel to be served by public housing, then 36,154 families, or 22.3% of all South Dakota families are eligible for the program.

II. NOTES ON ATTACHED DATA

(accurate as of June 1, 1972, provided by HUD)

(A) Of the somewhat more than one million units of public housing produced in the country since the beginning of the program, South Dakota had, as of June 1, 1972, 2,311 units constructed and under management. This amount represents 2/10 of one percent of the total.

(B) Of the 2,311 units under management in the state, only 742, or 32%, belong to non-tribal housing and redevelopment commissions. Of the 3,042 units currently in process, 1,542 or about 50% will be managed by non-tribal authorities.

(C) Excluding tribal authority units, 150, or 20%, of the 742 units under management are in Sioux Falls. Excluding tribal authority units, 663 units in process, or 43% of the total in process are designated for Sioux Falls and Pennington County. Taking those in process and under management, Sioux Falls and Pennington County have or will have 36% of the total units.

(D) Of the 3,042 units currently in process, 1,398 of them were *not* under construction, or ACCs had not been signed for them. There is a good chance, therefor that a significant number of these units will *not* be constructed (or construction will be delayed for at least a couple of years) because of the 18 month moratorium on subsidized housing production.

MUNICIPAL HOUSING AND REDEVELOPMENT COMMISSIONS

	In process		Under management		
	Elderly	Family	Elderly	Family	Total
Aberdeen	50	50			100
Burke			24		24
Canton	20				20
Clark	30				30
DeSmet			28		28
Faulkton	30				30
Gregory	60				60
Hot Springs			100		100
Broward			24		24
Kennebec			4	16	20
Lake Andes			6	18	24
Lead	40	100			140
Lemmon	40				40
Lennox	30				30
Madison			94		94
Martin			20	16	36
Milbank			40		40
Miller	40				40
Mitchell				124	124
Norden	20				20
Parker			28		28
Pierre	30	20			50
Redfield	50				50
Sioux Falls	36	167	70	80	353
Sisseton	45		20		65
Tyndall	24				24
Viborg	20				20
Webster	40				40
Wessington Springs			30		30
Total (29)	605	337	612	130	1,684

COUNTY HOUSING AND REDEVELOPMENT COMMISSIONS

	In process		Under management		
	Elderly	Family	Elderly	Family	Total
Pennington	200	260			460
Corson	65	75			140
Meade					
Lawrence					
Jackson					
Total (5)	265	335			600

TRIBAL HOUSING AND REDEVELOPMENT COMMISSIONS

Cheyenne River/Eagle Butte	72	347	14	130	563
Fort Thompson/Crow Creek		93	10	121	224
Rosebud			22	520	542
Sisseton/Wahpeton	28	71		141	240
Standing Rock		230	10	170	410
Lower Brule		30	12	78	120
Oglala Sioux		629	29	192	850
Yankton Sioux				120	120
Total (8)	100	1,400	97	1,472	3,069
Grand total	970	2,072	709	1,602	5,353

Note: Total in process—3,042. Total under management—2,311.

The Federal Housing Administration and Its Activities in South Dakota

I. GENERAL BACKGROUND

The Federal Housing Administration was established in the mid '30s with the intent of providing a stimulus to a sagging construction industry, as Congress put it. The operation of FHA's programs depends on the activity of builders and the private mortgage market. Basically, FHA is an insurance company which secures lenders from losses on real estate loans they make and FHA approves. Simply put, the system operates in this manner: 1. the builder constructs or rehabilitates units, with FHA approval for a specific program; 2. the borrower goes to the lender to buy the unit (or units); and 3. FHA insures the loan the borrower acquires.

FHA did not become involved with subsidized housing (although its market interest rates have traditionally been slightly lower than conventional rates—it is currently 7%, plus ½% mortgage insurance premium. The rate is determined by the HUD Secretary, who adjusts it according to conditions in the conventional mortgage market) until the early 60's. It was authorized to operate the 221(d)3 rental and cooperative housing program, which had a flat 3% below market interest rate. In the mid 60's, it was also given the rent supplement program to administer (see below), and in 1968, the interest reduction programs (235 for homeownership and 236 for rental and cooperative housing) were added (see discussion of interest credits under "General Background" in the Farmers Home Administration section. The difference between FHA's and FMHA's approach is that FHA pays the private lender the difference between what the borrower can afford to pay and the market interest rate).

The rent supplement program is attached to two other FHA programs; 236 and 221(d)3 (the below market interest rate program of 221(d)3 was suspended a couple of years ago. All 221(d)3 insured loans now bear the market interest rate). The intent is to provide assistance to people who otherwise could not afford to pay rents, even based on 1% interest in the case of 236, for their units. Under the 236 program, currently about 10% of the units can receive rent supplement assistance. The rent on these units can be reduced by up to 70%, depending on the tenant's ability to pay. Under the 221(d)3, all of the units can receive assistance, and up to 70% of the rent can be reduced, depending on

the tenant's ability to pay. Rent supplement payments are made by FHA on behalf of the tenant receiving assistance to the owner of the units.

FHA has been riddled recently with scandal, graft and corruption, with public outcries from coast to coast. The programs in South Dakota, on the other hand, have been thus far free from taint.

II. NOTES ON ATTACHED DATA (PROVIDED BY FHA'S SIOUX FALLS INSURING OFFICE)

1. The most outstanding and interesting note about the attached data is the overwhelming utilization of the FHA programs in urban areas. 73.7% of all 235 units, for example, are located in Minnehaha and Pennington Counties. The same disproportionate distribution of untis under the 236 and 221(d)3 programs holds true. This in part reflects FHA's bias toward working with large and sophisticated builders, in part reflects the difficulties and complexities of managing FHA's application procedures, and in part reflects the *lack* of available mortgage credit from small town lending institutions.

2. The attached data indicate the cumulative total of subsidy money spent by FHA on units, but they do not reveal the amount of loans it took to build the units. Nor is there a breakdown of the use of rent supplement money or a separate accounting of the amount spent on rent supplement assistance, although the rent supplement funds are accounted for in the data. According to the Sioux Falls Insuring Office, the total amounts insured under the programs are, to this date, as follows: 235—$20,488,000; 236—$15,539,600; and 221(d)3—$43,112,300.

3. Only one project of 221(d)3 was initiated under the suspended below market interest rate program.

THE EFFECTS OF THE 18-MONTH MORATORIUM ON HOUSING

At the time these figures were acquired, the production figures for FmHA and HUD looked like this for FY '72 and FY '73.

	Fiscal year 1972 units	Fiscal year 1973 units
Farmers Home Administration:		
502	793	601
515	160	165
Total	953	766
HUD:		
235, 236, 221(d)3	1,388	318
Public housing to Indian authorities	526	289
Public housing	828	----
Total	2,742	607
Grand totals	3,695	1,374

Because of the moratorium, then, it appears that subsidized housing production will decrease by about 66% and Farmers Home was headed for a banner year, with nearly as much production in ½ of FY '73 as in all of FY '72.

The construction costs for these units are as follows:

[In millions]

	Fiscal year 1972	Fiscal year 1973
Farmers Home Administration	$11.80	$7,864
HUD	40.27	9.105
Total	52.07	16.969

The difference between construction outlays for the two fiscal years is $35 million, a substantial loss to the state's economy.

FEDERAL HOUSING ADMINISTRATION—CUMULATIVE THROUGH JAN. 1, 1973, SECS. 235, 236, 221(d)3 BY COUNTY—ARRANGED IN PLANNING DISTRICTS

[Amount of subsidy in thousands]

County	Sec. 235			Sec. 236			Sec. 221(d)3			Total	
	Existing	New construction	Amount	Family	Elderly	Amount	Family	Elderly	Amount	Units	Amount
I.—DISTRICT 1											
Brookings		19	$16.3	36		$58.0		103	$20.7	158	$19.0
Clark											
Codington	8	26	29.8	24		18.0		68	89.0	126	136.0
Deuel											
Grant											
Hamlin											
Kingsbury											
Lake	5		44.0				16	16	32.9	37	37.0
Minor											
Moody								18	19.6		
Total	13	45	50.5	60		76	16	205	262.2	321	369.0
II.—DISTRICT 2											
Clay	4	26	25.9				28	28	49.0	86	0.0
Lincoln	1	7	7.2					48	50.0	56	5.0
McCook								24	85.0	24	
Minnehaha	140	510	565.9	250	44	221.8	61	412	634.9	1,417	142.0
Turner		2	1.7					24	31.8	27	0.0
Union								15	24.0	15	0.0
Total	145	545	600.7	250	44	221.8	89	551	899.9	1,625	169.0
III.—DISTRICT 3											
Aurora											
Brule								36	41.9	36	4.0
Bon Homme	1		.8				2	33	51.6	35	5.0
Davison	16	59	66.1	20	12	21.3		52	73.3	159	10.0
Douglas								12	15.6	12	1.0
Charles Mix		1	.8								
Gregory		2	2								
Hanson		1	.8								
Hutchison								24	28.7	24	2.0
Jerauld											
Sanborn											
Yankton	7	48	52.2	54	44	52.6	15	45	94.9	213	19.0
Total	24	111	122.7	74	56	73.9	17	202	30.6	479	49.0

FEDERAL HOUSING ADMINISTRATION—Cumulation throughJan. 1, 1972 SECS. 235, 236, 221(d)3 BY COUNTY—ARRANGED IN PLANNING DISTRICTS—Continued

[Amount of subsidy in thousands]

County	Sec. 235			Sec. 236			Sec. 221(d)3			Total	
	Existing	New construction	Amount	Family	Elderly	Amount	Family	Elderly	Amount	Units	Amount
IV.—DISTRICT 4											
Beadle	1	9.	8.5	33	17	36.9		134	163.3	194	20.0
Brown				72		57.1	14	38	80.8	124	13.0
Day											
Edmunds											
Faulk											
Hand											
Marshall								24	27.0	24	
McPherson		1	.8					24	29.2	24	
Roberts											
Spink											
Total	1	10	9.3	105	17	94.0	14	220	300.3	366	40.0
V.—DISTRICT 5											
Buffalo											
Campbell											
Corson											
Dewey											
Haakon											
Hughes	1	19	17.5	86		68.6		82	117.9	188	20.0
Hyde											
Jones											
Lyman	1	1	1.8							2	1.0
Mellette											

Perkins											
Potter								24	26.0	24.0	2.0
Stanley											
Sully								24	28.5	24	28.0
Todd											
Tripp		14	12.4							14	12.0
Walworth								36	41.9	36	41.0
Ziebach		3	11.6					32	41.1	35	52.0
Total	2	37	43.3	86		68.6		198	255.4	323	42.0
VI.—DISTRICT 6											
Bennett								40	48.0	40	48.0
Butte	2	5	6.3					28	33.9	35	40.2
Custer		2	1.8							2	1.8
Fall River											
Harding											
Jackson											
Lawrence	1		.9	8	14	14.6		40	58.0	63	
Meade	3	11	12.4					32	39.3	46	51.7
Pennington	39	172	814.4	401	46	347.8	198	130	719.4	986	1,251.0
Shannon											
Washabaugh											
Total	45	190	205.8	409	60	362.4	198	270	898.6	1,172	1,393.0
State total	230	938	1,032.3	575	177	896.7	334	1,646	2,845.2	4,286	4,782.0

NOTES

A.—Total 235=1,168; total 236=752; total 221(d)3=1.980.

B.—Number of 235 total in Minnehaha County=650; percent of total 235 in Minnehaha County=55.7 percent; number of 235 total in Pennington County=211; percent of 235 total in Pennington County=18 percent; total 235 in Minnehaha and Rapid City=861; percent of 235 total in Minnehaha and Pennington County=73.7 percent.

C.—Number of 236 total in Minnehaha=294; percent oj total 236 in Minnehaha=39 percent; number of 236 total in Pennington County=447; percent of 236 total in Pennington County=59.4 percent; total 236 in Minnehaha and Pennington County=741; percent of total 236 in Minnehaha and Pennington County=98.5 percent.

D.—Number of 221(d)3 total in Minnehaha County=653; percent of total 221(d)3 in Minnehaha County=32.9 percent; number of 221(d)3 total in Pennington County=328; percent of total 221(d)3 in Pennington County=16.5 percent; total 221(d)3 in Minnehaha and Pennington County=981; percent of 221(d)3 total in Minnehaha and Pennington County=49.5 percent

The CHAIRMAN. Next is Mr. Frank B. Elliott, Acting Administrator of the Farmers Home Administration. We will be very glad to have your statement.

STATEMENT OF FRANK B. ELLIOTT, ACTING ADMINISTRATOR, FARMERS HOME ADMINISTRATION; ACCOMPANIED BY JAMES F. NEVILLE, ASSISTANT ADMINISTRATOR, RURAL HOUSING; AND JENNINGS ORR, DIRECTOR, SINGLE-FAMILY HOUSING

Mr. ELLIOTT. Mr. Chairman, I would defer to your time schedule and also I would defer to the august Senators who are concerned, as we are about providing adequate housing facilities to the degree possible in rural areas. We are dedicated to it.

I think I can document for the record our accomplishments to date, although we have yet to take the full 100 yards in reaching the objective of providing adequate facilities and homes in the rural areas of America.

You may be interested in knowing, as stated in my written testimony, that the total level of activity and responsibility for the Farmers Home Administration has increased in recent years. For example, on June 30, 1968, we had 383,000 outstanding housing loan accounts with a principal balance of $4.8 billion. Four years later on June 30, 1972, we had 636,000 outstanding accounts with a principal balance of $9.6 billion. By June 30 of this year we estimate that the amount outstanding will have increased by another $2 billion and our total outstanding accounts will total about 766,000.

We also have some very far-reaching and exceptional legislation in the Rural Development Act of 1972 providing authorities which, together with the organic legislation that we possess in the Farmers Home Administration, will enable rigorous pursuit and fulfillment of the needs of rural America—such needs as adequate housing, community facilities jobs, and other developments which will permit rural residents to enjoy the life and the abundance due them.

We would be the last to argue about the problems and needs that lie in the rural areas. However, the record will support that great progress has been achieved in the past 5 or 6 years.

It is true that we have not had time to review the legislation proposed, nor to provide an administration position. But we are always seeking to improve the delivery of our services through any mechanism that might be suggested or legislated.

We do have the necessity of maintaining budgetary constraints while trying to maintain the delivery of our services in the most efficient manner.

I would like to refer to another section of my written testimony wherein I state that the largest part of our housing program is in section 502 loans for adequate single family housing. Under this program loans are made for low- and moderate-income persons to buy or build a home or improve one they already own. This authority was amended in 1968 to authorize loans to lower income families at subsidized interest rates. The current basic interest rate for those who can afford it is 7¼ percent.

Under the subsidized program, the interest rate for housing loans may be reduced to as low as 1 percent, depending on the size of the family, their income, and the amount of the loan. At present, this subsidized loan program has been suspended. I would like to comment on that briefly in a moment.

I would not want to belabor you at this point with what our program does. I am sure all of you are quite familiar with it. To date, however, over 750,000 families have received rural housing loans from the Farmers Home Administration.

We recognize that historically the largest number of low-quality units has been found in rural areas. In 1970 there were 20.4 million occupied homes in rural areas served by the Farmers Home Administration, of those about 12.6 percent, or about 2.6 million, lacked complete plumbing. We recognized this problem must be dealt with, and we have been dealing with it.

I will skip through rapidly in order to give you time to ask questions, but during recent years our housing program has been one of rapid growth. The HUD program, also, is one of rapid growth. We are not in competition with HUD. We are a companion agency. They provide the urban support, and we in the Farmers Home Administration provide the rural support in areas of 10,000 population or less.

I would like briefly, in closing, to comment on the suspension of new commitments on subsidized interest credit at close of business January 8, 1973. This was part of a governmentwide suspension of subsidized housing to provide time for study. I am completely sympathetic with those who feel the need to determine the various roles that should be played by the Government and the private sector to fulfill the obligation of providing the opportunity for rural people to have proper housing and proper community facilities.

This evaluation of existing programs is now underway. It is due to be completed by September. The Farmers Home Administration and others in the Department of Agriculture are involved in this study. Our FmHA State Director from your State of Alabama, Mr. John Garrett, has been an active participant in that study at the Federal level. We have also had people from various counties and States participating with Assistant Secretary Mike Moskow of HUD, who is chairing the study. We have full rural input to the results of that study which will be, as I said, available in September.

Now, I will leave my written testimony, sir, and respond to whatever questions you might wish to ask.

The CHAIRMAN. Thank you very much.

You have an interesting and informative statement.

I have a group of pictures here, and I think we should put them in the record of this hearing.

I assume these pictures—I have here quite a few pictures of before and after—I understand they came from some of my builder friends down in Alabama. The pictures certainly tell a story within themselves so far as the appearance of the housing is concerned, and the adequacy of the housing.

[The pictures follow:]

U.S. DEPARTMENT OF AGRICULTURE,
FARMERS HOME ADMINISTRATION,
Washington, D.C., August 7, 1973.

Hon. JOHN SPARKMAN,
U.S. Senate, Washington, D.C.

DEAR SENATOR SPARKMAN: During recent hearings held by the Committee on Banking, Housing and Urban Affairs, you had several pictures showing how families had improved their housing through the use of subsidized housing loans. You requested that we obtain information about the families and the loans they received.

We understand your pictures were those used by Mr. Jay Bragg of Dothan, Alabama, in his testimony before a Senate Subcommittee in January of 1973. The pictures show the "before and after" homes of families who received HUD Section 235 loans. We were unable to obtain information on all the families but the available information is included on the reverse of the pictures of the new homes.

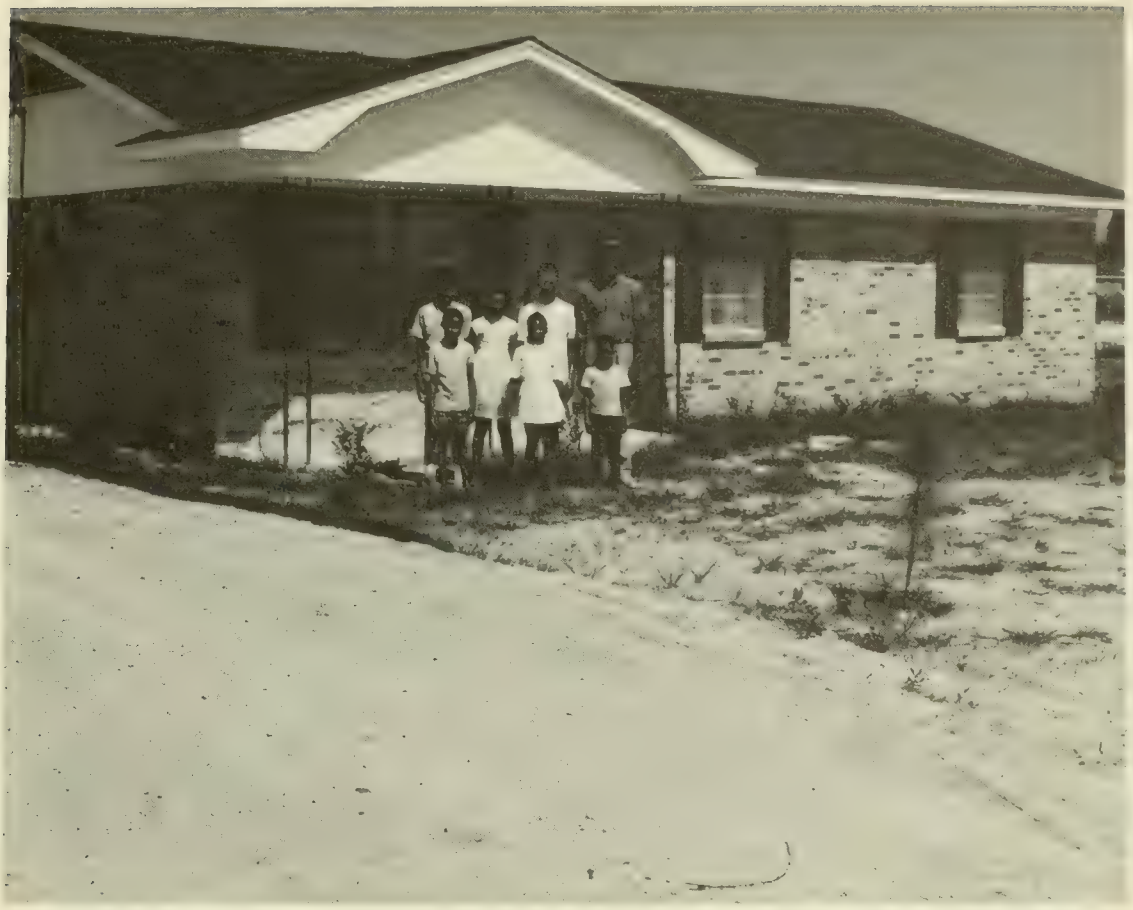
We also want to show you some pictures of homes financed by the Farmers Home Administration. We, therefore, are enclosing another group of photographs illustrating the type of housing being built and financed by this agency in Wilcox and Lowndes Counties in Alabama. Since these pictures were furnished by Mr. John A. Garrett, our State Director for Alabama, we will appreciate your returning them to him if and when you finish with them.

We appreciate your desire to help rural families improve their standard of living and your interest in our rural housing program. We hope we have provided the information you desired.

Sincerely,

JAMES F. NEVILLE,
(For Frank B. Elliott, Administrator).







Fred Williams: Age 48, Wife 43, 7 in Family. Total Loan, $12,700. Regular Payment, $1,022. Interest Credit Payment, $454. Annual Income $3,080.





Houston Pettway—Wilcox County, Alabama: Age 25, Wife 26, 4 in Family, Loan, $12,700. Regular Repayment, $1,022. Interest Credit Payment, $454. Annual Income, $3,200.



Arwilda Jones—Lowndes County, Alabama : A single woman, 9 in the Family. Loan, $12,530. Regular Payment, $1,009. Interest Credit Payment, $448. Annual Income, $2,592.



Andy & Mary Carter—Wilcox County, Alabama : Age 59, Wife 40, Loan, $11,800. Regular Payment, $947. Interest Credit Payment, $421. Annual Income, $3,380.



Westgate Subdivision—Wilcox County, Alabama: House picture, Total cost $12,720 in 1972 same house now costing $13,700. Streets now paved by city of Camden. City water and city sewerage.



Henry & Carrie Kennedy—Wilcox County, Alabama: Age 74, Wife 69, 2 in Family, Loan, $12,720 in 1972, Regular Payment, $1,022. Interest Credit Payment, $487. Annual Income, $2,240.




TURE # 6
FORE


AFTER


PICTURE # 7
BEFORE



AFTER





AFTER



PICTURE # 12


AFTER


PICTURE # 13
BEFORE


AFTER


PICTURE # 14
BEFORE


AFTER


PICTURE # 15
BEFORE



Annie Bell Morris—Wilcox County, Alabama: Age 38, Single, 7 in Family, Loan, $12,720 in 1972, Regular Payment, $1,022. Interest Credit Payment, $454. Annual Income, $2,832. First time to ever live in house with running water.

The CHAIRMAN. I have seen houses of this type out in the field, and I have seen some very fine housing under the rural program that we enacted in 1968.

By the way, these houses that I have here have a mortgage limit of $13,200. That was the limit of the mortgage on this housing. But it would be interesting to know what the income of the family was that was getting that change and what the monthly payments were and so forth. Maybe you can prepare some kind of facts for us on that basis.

Mr. ELLIOTT. I would be delighted to do that, sir.

I would be remiss, Mr. Chairman, if I did not point out the fact that we have not always had startling successes. We have had some problems in the Farmers Home Administration resulting from tripling our housing program in a period of 5 years.

I have testified before the House Subcommittee on Intergovernmental Relations that is chaired by Congressman Fountain of North Carolina on some of our problems. We are rectifying every problem that we can. We recognize that in the rapid increase of the program we have made some mistakes, but, as I pointed out in my testimony at that time, the intent of Congress to provide rural housing and adequate community facilities has been carried out with great success all across the United States.

That does not mean to say that we have been successful in all places under all circumstances. We recognize the need for corrective action

and are taking it. I would submit to the chair that the evidence shows that while we have achieved much, we have more to do.

The CHAIRMAN. You mentioned Mr. John Garrett a few minutes ago in connection with one of these studies. I want to say that Mr. Garrett has done a fine job in the State of Alabama. I am sure you have a lot of good men as State administrators, but I don't think you have any better than he.

Mr. ELLIOTT. I was in Birmingham yesterday, where the organization that has done the most for the development of rural areas of Alabama was being recognized by the Chamber of Commerce of Birmingham, Ala. The chamber presented Mr. John Garrett and the men and women who work for him in your State with the plaque for the most outstanding achievement.

The CHAIRMAN. I am glad to hear that. I was in Shanghai yesterday. I wish I could have been in Birmingham.

Just one question. You heard this recommendation that we increase the size of the town in what we call rural areas to 25,000 population. We set it now at 10,000.

Mr. ELLIOTT. Right, sir.

The CHAIRMAN. There was a time when eligibility was limited to a family actually living on the farm.

Mr. ELLIOTT. That's correct.

The CHAIRMAN. Then we increased it, I believe, to rural areas which included towns with population up to 2,500.

Mr. ELLIOTT. 2,500 and then to 5,500.

The CHAIRMAN. Yes, and then from towns of 5,500 up to 10,000.

Mr. ELLIOTT. Right, sir.

The CHAIRMAN. My recollection is that we have kept that level up to the present.

Mr. ELLIOTT. As I understand it, that is correct.

The CHAIRMAN. One other question. I have heard this criticism of the program: It is not so much a criticism as it is a reason for not being able to move as fast as we would like to have it move, and that is that the housing is handled on the basis of—county by county—and it is handled by the county supervisor, the supervisor of FHA in that county, and that he does not have an adequate force with which to handle the applications and keep the program moving.

Have you received any complaints along that line, or any thoughts along that line?

Mr. ELLIOTT. Senator, I guess in every pursuit in life the desire for more resources is always omnipotent. I have been given, by the Secretary of Agriculture, a set amount of manpower resources, and Congress has provided the finances.

I have to figure out ways and means to administer these programs to the satisfaction of our people in rural areas with the resources allotted. This has always been a problem of an administrator or a manager.

The CHAIRMAN. I don't believe I asked you the question about that proposal of increasing the size to a city of 25,000. Do you believe that we should move it to a higher level, or should we keep it geared to the level that we have had heretofore?

Mr. ELLIOTT. I would like to make two observations on that. The Rural Development Act includes authority for guaranteeing housing

loans, and we have within existing legislation, authority to make housing loans in places with population of up to 10,000. We have some authority to service communities of up to 25,000 under the Rural Development Act, and indeed, industrial and business loans to communities of up to 50,000.

Now, if I could make this observation, I would like to see us go through the year implementing the Rural Development Act with the present authority and commend to you any recommendations following our implementing of these new authorities.

As I pointed out, in our rapid growth we have made some mistakes for which we have been criticized, so I would rather work within the existing authorities of the Rural Development Act at this time and come back to Congress with recommendations after a year of operation.

Until the administration has completed its studies and has made its recommendations for debate and concern by the legislature, I believe that it would be best to defer additional legislation.

The CHAIRMAN. Of course, one thing I think we should keep in mind is that the Rural Development Act is not merely a housing program by itself. It is connected with the idea of creating a community that will invite people to live there, and some of those who have gone to the cities to come back there to live.

It involves more than just a single family here and there.

Mr. ELLIOTT. We understand that, sir, and we have read the legislation and are implementing it. However, one of the bases that we develop the rural committees on, as we see the legislation directing us to do, is to bring the housing facilities up to par in those localities. Housing is a major part of the total commitment.

The CHAIRMAN. By the very nature of the program or the fact that it is scattered throughout the country, big acreage, sizable farms, and a single house, one here and one there, it is not like a subdivision. Do you have any difficulty in getting builders to build housing out in the country where they don't have large tracts of land to work on at a time, as is true in the case of subdivisions?

Mr. ELLIOTT. I will answer that, but, after I do, I would like to defer to Mr. James Neville, who is our housing authority. As the program was geared up, it was difficult to bring capable builders into rural areas for the construction of community facilities, as well as for the construction of multiple and individual housing.

The program has started to bring in the needed building capability as it has increased in scope. I would hope it continues.

Now, I defer to Mr. Neville, if he would like to comment on the question more extensively.

The CHAIRMAN. Fine. By the way, I would like you to—for the benefit of the record—to identify the other gentleman with you.

Mr. ELLIOTT. Mr. Jennings Orr is the Director of our Single Family Housing Division and is very familiar with our housing programs.

The CHAIRMAN. All right.

Mr. NEVILLE. With the expansion of the rural housing program, there was evidence of a shortage of contractors in rural America. Primarily, you had a father-and-son type of operation that produced the housing that was in demand in those areas.

However, what led the larger builders to participate in the program was a knowledge of the fact that there was a strong market for housing in rural America.

In addition, there was also available financing to provide that housing under Federal assistance, through the Farmers Home Administration through its direct lending policy.

Previous to that time, many of them were apprehensive of the fact that there was a lack of mortgage money in rural America for long-term financing. It was primarily for short term, and consequently financing on any basis was a burdensome obligation. But with the new amendments to the Housing Act which began in 1968 for interest credit, there grew the expansion in the program as is evidenced by the production in the last couple of years.

The CHAIRMAN. Well, I am pleased to hear that.

I appreciate your giving us the benefit of your suggestions and information, all of you, and I certainly appreciate your appearing as witnesses.

Mr. ELLIOTT. Thank you very much.

[Complete statement of Mr. Elliott follows:]

STATEMENT OF FRANK B. ELLIOTT, ACTING ADMINISTRATOR, FARMERS HOME ADMINISTRATION

Mr. Chairman, members of the committee: I appreciate the opportunity to appear before this committee to discuss the operation of the rural housing program in the Department of Agriculture. This program is designed to provide housing credit in rural areas for families who are unable to obtain home mortgage credit from other sources.

The Congress first enacted special housing legislation for rural families when it included a farm housing section as title V of the Housing Act of 1949. Loans were initially authorized only to farmers but the law has been amended to permit making rural housing loans to nonfarmers for dwellings located in the open country and small rural towns with not more than 10,000 population. Other significant changes have been made in the Department's housing program to better adapt it to the housing needs of rural America. They include authorizations to make:

Loans for rental and cooperative housing.

Loans and grants for farm labor housing.

Loans to nonprofit organizations to buy land and develop it into building sites for low- and moderate-income families; and

Technical assistance grants for self-help housing. (The legislation authorizing the making of such loans expired June 30, 1973. Legislation proposing its extension is pending H.J. Res. 512).

Another significant change occurred in fiscal year 1966 when the program was placed largely on the insured basis.

The Farmers Home Administration originates and insures loans and services loan accounts and security property. Loans are made with funds advanced to borrowers out of the rural housing insurance fund. After the loans are closed the notes are sold to private investors and insured at the time of sale. Our agency, through its loan programs, has the capacity to bring investment capital from big cities to rural areas. The flow of this type of loan capital to the credit deficit areas in the country assists in providing the people who live there an opportunity to have adequate housing and related community facilities.

There has been a substantial increase in the volume of loan activity. The highest volume of loans made prior to enactment of the loan insurance authorization was $185.7 million in fiscal 1963. The amount authorized for the 1973 fiscal year was slightly more than $2 billion. This would have enabled the Farmers Home Administration to finance homes for about 130,000 families in rural areas this year.

The committee may be interested in knowing that the total level of activity and responsibility of the FHA has increased sharply in recent years. For example, in June 30, 1968, we had 383,000 outstanding accounts with a principal balance of $4.8 billion. Four years later, on June 30, 1972, we had 636,000 outstanding accounts with a principal balance of $9.6 billion. By June 30 of this year we estimate that the amount outstanding would have increased by another $2 billion and our total outstanding accounts are estimated at 766,000.

Associated with the delivery of credit is counseling service to families and to developers who want to build homes for the market we serve. The organizational structure of the agency is well adapted to this type of credit delivery service. It is a direct line agency with some 1,750 offices to serve families in rural communities. Briefly, the Farmers Home Administration has three administrative levels; namely, the National, State, and country offices. The focal point for delivery of the agency's services is the local county office. County office personnel receive and process applications for homeownership loans, determine the applicant's eligibility, counsel families, make appraisals, review plans and specifications, inspect construction and service loans. Loans for multifamily housing are reviewed and approved at the State office level. Some larger, complex loans require prior review by the national office.

The function of the State offices is to provide program supervision and management guidance to county offices.

The national office is responsible for the establishment of policies and procedures and giving administrative direction to all phases of the programs for which the Farmers Home Administration is responsible.

Fnancial and program accounting, reporting, computer services and support services to field offices are centered in the FHA national finance office in St. Louis, Mo. This office also handles the sale and purchase of insured notes.

The largest part of our housing program is section 502 loans for adequate single family housing. Under this program loans may be made to low- and moderate-income families to buy or build a home or to improve one they already own. This authority was amended in 1968 to authorize loans to lower-income families at subsidized interest rates. The current basic interest rate is 7¼ percent. Under the subsidized program, the interest rate may be reduced to as low as 1 percent, depending on the size of family, its income and the amount of the loan. At present, this subsidized loan program has been suspended. I will comment more about this later in the statement.

We also make loans to finance rental housing for elderly and low- and moderate-income families. This program serves families in small towns, especially senior citizens and young families who are just establishing households. Small home repair loans for shelter housing are available to owner-occupants for minor repairs to homes. These loans are made to very low-income families whose dwellings are badly in need of repair to remove hazards to the health and safety of the family and the community. Loans are used for purposes such as roofing repairs, putting in screens, providing adequate water and waste disposal systems, and making the home structurally sound.

Other programs are farm labor housing loans and grants, technical assistance grants to qualified organizations to pay administrative and supervisory costs in connection with mutual self-help housing loans and for building sites.

To date, over 750,000 families have received rural housing loans from the Farmers Home Administration. Historically, the largest number of low quality units has been found in rural areas. In 1970 there were 20.4 million occupied homes in those rural areas served by the Farmers Home Administration. Of these, 12.6 percent or about 2.6 million lacked complete plumbing. This is only a partial measure of the need for better housing in rural areas. Additional demand for homes will develop from :

The elderly who now live in rural areas or who want to move there.

Newly formed families who want to live in rural areas.

Industrial development in rural communities.

Families who move from one location to another to seek employment or a more favorable place to live.

The settling out process of migratory farm labor.

The modification of overcrowded conditions.

The replacement of homes that are lost or damaged as a result of fire or natural disasters.

During recent years our housing programs has been in a period of rapid growth. In addition the area of service was increased to include rural places up to 10,000 population. To handle the increased volume of housing loans we made a concerted effort to improve the efficiency of our available staff. For example, we :

Introduced the use of conditional commitments to encourage builders and developers to participate more actively in the production of housing.

Put into effect a system under which most of the borrowers make their payments directly to the FHA central finance office in St. Louis.

Authorized the use of commercial credit reports.

Introduced a method for packaging applications under which builders, developers, real estate agents and others may assemble factual information about the house and the applicant. The judgment decisions such as the determination of eligibility of the applicant and appraisal of the property are made by the Farmers Home Administration.

Made more extensive use of our computer to improve the types of reports to State and national offices, reduce the workload at the county office level and improve the service to borrowers.

Consolidated forms whenever practicable.

Continued to improve our working relationship with the private sector, especially members of the building trades and the financial community.

Issued comprehensive guidelines for building sites and subdivision development.

Adopted HUD's minimum property standards for uniformity.

Required FHA inspection during the 11th month of warranty period.

Put into effect suspension and debarment procedures for contractors, builders and realtors.

Issued a procedure for handling construction complaints.

Established a technical services division at the national office and strengthened state office technical skills.

Established an operational review and evaluation system.

Work more closely with State and local health or sanitation officials and other Federal agency staffs such as the soil conservation service to utilize technical information available through these sources.

Established a national training center at Norman, Oklahoma, and strengthened other national and State office training efforts.

Increased the emphasis on employee conduct and activities to preclude apparent or actual conflicts of interests.

Emphasized the need to work closely with delinquent and problem case borrowers.

Revised policy to make use of the county committee optional rather than mandatory.

Relieved the county supervisor of loan closing responsibilities by making greater use of designated attorneys.

Geared multifamily housing policies to production and streamlined processing procedure.

Designated multifamily housing specialists.

Established an appeals procedure for individuals, contractors and minorities.

Discontinued periodic inspections on seasoned loans.

Limited ratio of loan to value to 90 percent on new properties not constructed under FHA's supervision until after one year.

Included the penalty provisions of section 1001 of tile 18, U.S.C. on all appropriate documents.

In closing I would like to comment briefly on the suspension of new commitments on subsidized interest credits as of close of business on January 8, 1973. This action was part of a government-wide suspension of new commitments for subsidized housing to provide time for a study to explore the basic question of what role the Federal Government should play in housing and housing finance. The evaluation of existing programs is underway. The FHA and others in the Department of Agriculture are involved in this study and will participate in an evaluation of the broad housing issues to be considered. Particular attention will be given to the housing needs of rural families. The following are specific actions we took in connection with the suspension of new commitments for subsidized housing loans.

On January 8, 1973, FHA notified its field staff by telegram that after that date county and State offices could not approve farm labor housing loans and grants, rental and cooperative housing loans, and section 502 homeownership loans that involved interest credit. An exception was homeownership loans to families participating in mutual self-help projects.

Subsequent decisions resulted in modifications of the original notice. All of these actions were taken to do the best we could to draw the suspension line at the most equitable point for each program. These actions included:

Restoration of the nonsubsidized rental housing program.

Extension of authority to make housing loans with interest credits to families to buy homes built by builders who had received written or verbal commitments

from the Farmers Home Administration for the homes before January 9, 1973. In case of a verbal commitment for a home to be sold to a rural housing borrower at less than full interest, construction of the home must have been started and footings poured before January 9.

Making loans with interest credits to families who applied before January 9, 1973, and owned or had selected a house or site or had been found to be eligible by the Farmers Home Administration before that date.

Completion of applications for farm labor housing loans and grants for which written commitments were given before January 9 by the national or State office.

Authorized processing of applications that involve loans with interest credits for rental housing for elderly and others for which either written or verbal commitments had been made before January 9.

Authorized making loans with interest credits to families whose homes are being built or repaired under special manpower training programs.

Authorized the making of Section 502 RH loans with interest credits to buy homes being built in certain subdivisions or sections of subdivisions in which affirmative action was taken by the builder or developer during the year prior to January 9, 1973, to develop property based on written or verbal encouragement from the Farmers Home Administration.

These actions in connection with interest credit loans, together with the programs that are being continued on a nonsubsidized basis, will provide for a substantial level of activity while the comprehensive evaluation is being made.

Mr.Chairman, this completes my formal statement.

I shall be glad to answer any questions the committee may have about our housing program.

The CHAIRMAN. Next we have Mr. George Rucker, research director of Rural Housing Alliance.

We have three more witnesses, Mr. Rucker; Mr. David Herlinger, director of Colorado Housing, Inc., and Mr. John W. Biasucci, executive vice president, West Virginia Housing Development Fund.

I wonder if all three of you gentlemen might come to the table at one time, and I will tell you why: We are going to be having a rollcall over in the Senate before very long, and this might enable us to move along a little faster.

You gentlemen will recall a statement I made—your statements will be printed in the record in their entirety.

STATEMENTS OF GEORGE W. RUCKER, RESEARCH DIRECTOR, RURAL HOUSING ALLIANCE; DAVID W. HERLINGER, EXECUTIVE DIRECTOR, COLORADO HOUSING, INC.; JOHN W. BIASUCCI, EXECUTIVE VICE PRESIDENT OF THE WEST VIRGINIA HOUSING DEVELOPMENT FUND

[The full statements of Messrs. Rucker, Herlinger, and Biasucci begin at p. 233.]

Mr. RUCKER. My name is George Rucker, and I am research director of the Rural Housing Alliance.

I will attempt to summarize our longer statement which is submitted for the record.

We have also provided members of the committee with copies of the paper we submitted to Secretary Lynn earlier this year in response to his request for comments on Federal housing policies. It will provide you with our views on the subject in much greater detail than I shall attempt here today; and, if it is appropriate and you wish to make that paper a part of the hearing record, we would be pleased to see you do so.

Basically, we urge you to continue efforts to end the pattern of discrimination against rural areas and small towns—a pattern of

discrimination that has seen those areas get only a third of all Federal housing assistance, though they account for almost half of the Nation's poverty population and nearly 60 percent of its families which are living in substandard housing.

As a minimum, greater equity in program authorities between HUD and Farmers Home Administration are essential. Our paper for Secretary Lynn sets out some specifics on this. Among other things, FHA has been hampered by inadequate subsidy authority.

It has never had a rent supplement authority, for example—though I recognize that this committee attempted to correct that particular inequity last year, and I hope you will perservere in the effort. Farmers Home Administration has not had the rehabilitation grant program that HUD had administered—though I recognize that this particular inequity is not the responsibility of the legislative committees but of the appropriations process.

Since the subject came up earlier this morning and there is some debate about the ability of Farmers Home Administration to serve the poor, I think it is worth noting that a recent study done by the Department of Agriculture itself, entitled "Inadequate Housing and Poverty Status of Households," concedes that Farmers Home "has difficulty in reaching the very poor" and says that its programs "have not helped very many poor households obtain adequate housing." That study suggests that those below the poverty line should not even be considered as the target of Farmers Home Administration housing programs.

Now, we presume that you in this committee will again be attempting to consolidate and simplify HUD program authorities. We believe that title 5 of the 1949 act also needs rewriting and simplification. Through the years it has been developed through amendments to the point where we think it lacks some coherence and, like the HUD authorities, could benefit from rewriting.

But, beyond the rewriting and reforming, we believe that a serious effort to wipe out indecent housing in rural and small town America will require something along the lines proposed by Senator McGovern and Senator Abourezk. We want to make it clear that we don't regard the Emergency Rural Housing Administration as a substitute for Farmers Home or existing HUD programs and agencies. ERHA's assignment, as we understand it, would be to fill the gap; to serve those that the other agencies can't or won't serve; and in doing so, to take the ultimate responsibility for seeing to it that the job gets done.

Now, in trying to estimate just how big a job there is to be done, we projected a total of more than 2 million households in places of less than 25,000 population living in housing which lacks minimum plumbing or is severely overcrowded or both, and this is assuming that previous programs have assisted some 700,000 such households in the period since the 1970 census. We estimate, moreover, that almost a million of those households are so low on the income scale that their average rent-paying ability is something less than $14 a month.

Current programs and agencies, we believe, are just not going to be able to serve those people, and that is one of the reasons we think ERHA is needed.

As the legislation is proposed, this agency would have a wide range of subsidy mechanisms at its disposal, including a deeper homeowner-

ship subsidy that has previously been available outside of public housing, and including the ability to bridge the credit gap in rural areas with direct Treasury financing—both to save interest costs to the taxpayers and to avoid any pressure to keep one eye on the ready resaleability of the housing it finances.

ERHA would not have to build a minimum two-bedroom, 800- to 1,000-square-foot house for every old person or couple who needed housing. Under the program large numbers of families could be housed decently and safely in housing which private agencies would hesitate to finance because of its location and resaleability.

Finally, if our experience over the last half-dozen years in working on the rural housing problem has taught us anything, it is the importance of the institutional gap in rural areas and small towns—the lack of people and organizations in a position to effectively hustle the housing system. Any program that is passive, that reacts rather than initiates is going to be less than effective. The McGovern-Abourezk bill proposes to deal with this by fostering the organization under State law of local rural housing associations which will be responsive to those who are served on the one hand, but also responsible to the community at large as delegate agencies of ERHA with area responsibility, such as the REA Co-ops have an area responsibility.

We would like to remind you that there was a time when it had been proved to the satisfaction of almost everybody that rural areas could not be electrified. The power companies, in collaboration with the American Farm Bureau, conducted studies which purported to prove that farmers could not afford to pay enough to justify rural electrification. But once REA came into being, it appeared to be more like mist of myth.

The co-ops slashed the cost of construction per mile; they slashed the cost of meter reading to zero; they brought into being relatively inexpensive transformers * * * ad infinitum. Once it was decided that rural areas would be electrified, the vast ingenuity of our society was brought into play, in a multitude of big and little ways. Would became could.

Rural Electrification swept to a genuinely impressive achievement because: (1) it was an independent agency with a single purpose; (2) it was financed out of the Treasury and not mortgaged out to private money interests whose interests would have perverted the program; (3) the policies were set as a Federal responsibility; (4) the execution was local with consumer participation on an unprecedented scale.

Rural Electrification flowed from an assumption of Federal responsibility with local democratic control. We don't pretend that the problems are identical, but we do contend that the principles will apply, and that something like that partnership of local responsiveness and input with a real Federal commitment—in terms of credit resources and subsidy funds and in the form of an agency with an affirmative mandate to do the job—is going to be required if we are serious about eliminating indecent housing in rural and small town America.

Thank you.

The CHAIRMAN. Thank you, Mr. Rucker.

Now, I am going to have to leave. Senator Johnston has kindly agreed to carry on.

Senator Johnston, I have asked the last three to come up to the table. Mr. Rucker has just completed his testimony.

[Senator Johnston assumes the chair.]

Senator JOHNSTON. Next would be Mr. Herlinger. We would like to hear from you.

Mr. HERLINGER. I would like to give my statement.

We believe that for a variety of reasons outlined in the statement that a rural housing administration needs to be created, and should include at least a statewide or regional delivery system which is public in nature and thus answerable to the electorate and elected officials. This type of system based on our experience can provide immeasurable aid to local citizens. It should include a comprehensive community development power which would include adequate grant and loan funds for sewer, water, planning, open spaces, as well as the housing. It should have the ability to provide deeper and more flexible subsidies, including grants.

In most instances grants from the State has made these programs economically feasible. The grants have had a leveraging effect of nearly 15 to 1. Nearly $440 million of construction and rehabilitation is occurring due to at least in large part of a quarter of a million dollars that the State has been contributing.

A rural housing administration should have the authority to fund local housing authorities and other broad-based consumer oriented housing producers. It should have the authority to provide rent supplement statements which would be made available to rental agreements. Those payments are presently available only through the Federal Housing Administration, which is urban oriented.

It should have the ability to contract for studies to prove incapable organizations already in existence in given States and regions of the country.

In the State of Colorado, you need an income of at least $6,900 a year to purchase with interest credit for a farmers home administration 502 house. That is a 1-percent, 33-year loan, and that is $6,900 which is not low income. One of the reasons is the property taxes.

Senator JOHNSTON. $6,900 you need? That is pretty good wages in my State.

Mr. HERLINGER. It is good wages in our State. The subsidy is not deep enough to get down to the low-income families. As a result of that the low-income families tend to move to the cities.

I think the relationship has been neglected between urban and rural problems, and it would seem to me that a comprehensive manner of dealing with this is required through the legislative process, both in terms of industrial and commercial development and housing development, land development throughout the United States.

Senator JOHNSTON. Farmers Home has a program similar to the 235.

Mr. HERLINGER. That is the 502.

Senator JOHNSTON. I am afraid that is the bad news. I will go over and vote and will be back in about 6 minutes.

[Recess.]

Senator JOHNSTON. The committee will come to order.

Mr. Herlinger, we were hearing testimony from you about rural housing. Did you have anything else in your statement?

Mr. HERLINGER. Senator, I wanted to clarify the figure of approximately $6,900 a year income. That is based on a home which would cost, new construction, about $20,000, and because of inflationary factors, both in the building and labor and also land. That is just about

what you can build a new home for in Colorado right today, even in rural areas.

So if you can get a builder to build one for $14,000, you can qualify for the lower income, but the reality is that $14,000 homes are not around, at least in our State.

One other comment, and that has to do really with testimony earlier.

Senator JOHNSTON. Would you give us a breakdown on how you arrived at the $6,900 figure?

Mr. HERLINGER. Yes, sir. I used the factors that the Farmers Home Administration uses in computing what the monthly payment or yearly payment is going to be for principal and interest, and added on an estimate of taxes, and insurance.

I then multiplied that by 20 percent of income. That is generally what they say the family needs to qualify, and it gets up to about $6,900. You use the mathematical process that the Farmers Home Administration uses.

Senator JOHNSTON. If it is their figure, if you can have them available to use, we would appreciate it.

Mr. HERLINGER. I would be glad to.

[The following was received for the record:]

COLORADO HOUSING, INC.,
Denver, Colo., July 26, 1973.

Senator JOHN SPARKMAN,
Chairman, Committee on Banking, Housing and Urban Affairs, U.S. Senate, Washington, D.C.

DEAR SENATOR SPARKMAN: During my testimony on Rural Housing, Senator Johnston asked me to supply some additional information regarding the Farmer's Home Administration 502 interest credit loan.

I had indicated that it takes an adjusted income of approximately $6,900 to be able to purchase a home under this program in Colorado. I based this figure on what new homes are costing in our State; an average is $20,000. Multiplying $20,000 by the 1%, 33 year amortization factor of .03573 you get a yearly principal and interest payment of $714.60. Add to that figure $600 for real property taxes and $90 for insurance you arrive at a yearly total of $1,404.60. Farm Home indicates that families should not pay more than 20% of their adjusted income for housing; multiply $1,404.60 by 5 (20%) and you have a required adjusted income of $7,020.00.

I appreciate the opportunity to discuss our views on housing legislation with the Committee and urge you to take quick action on a comprehensive housing bill which is adequately funded.

Sincerely,

DAVID W. HERLINGER,
Director.

Home mortgage	$20,000
1%—33 year loan amortization factor	× .03573
Yearly principal and interest	714.60
Real property taxes—30% of $20,000 × 90 mills	600.00
Insurance	+90.00
Total yearly payments	1,404.60
20% of income	×5
Required annual adjusted income	7,023.00

Mr. HERLINGER. I had one other comment, and that was the testimony of the acting administrator. On the one hand, he was talking about increasing programs. It is our understanding from the State

office in Colorado of the Farmers Home Administration that the administration here in Washington is proposing a 32.9-percent cut in staff of the Farm Home Administration by July 1 of next year.

I would like to see how they are going to increase programs by cutting the staff by one-third. I don't think those two points make a great deal of sense, At least for our State, they don't.

The CHAIRMAN. Mr. Herlinger, we had better move on and hear from Mr. Biasucci.

Mr. BIASUCCI. I am executive vice president of the West Virginia Housing Development fund.

The CHAIRMAN. If you could try to make your statement about 5 minutes in length, because the next time, I won't be able to come back.

Mr. BIASUCCI. I am pleased to have a few minutes to make comments about a matter of the deepest concern to us in West Virginia, the rural housing problem.

First, let me put the development fund in West Virginia in context, however. We are the State Housing Finance Agency for West Virginia. We have about $46 million of housing now completed or under construction, or in very active preconstruction development.

These are perhaps not large figures by urban standards, but by the standards of our State, they are very large. It is almost all 236 housing, all FHA insured.

My written statement covers four things: The obstacle to meeting rural housing needs, the applicability of Federal housing programs to the rural areas, some specific comments on last year's omnibus housing bill, S. 3248, and more general observations about rural housing.

In view of the fact that my written statement is considered part of the record, I will very briefly touch on the highlights of the written statement. I want to point out also that we have submitted to the staff of the committee a somewhat lengthier paper entitled "Housing in the Nonurban Setting," which, if the committee finds appropriate, we would like to have made part of the record as well.

Senator JOHNSTON. It will be. [See p. 317.]

Mr. BIASUCCI. My written statement does not go in depth into the need for more housing in rural areas. I think others have documented that well. The statistics are gruesome and known to anyone who has looked into rural housing at all.

I would like to focus first on the specific obstacles to why there is so little housing in rural areas. I think it is really quite a lengthy catalog. High building costs due to the fact that low volume construction costs more. High land costs. That is something which may surprise some who think that rural land is cheap, but when we talk of land costs, we have to talk also of the cost of land improvements, the sewer, the access roads which go with the land to make it buildable.

In rural areas—particularly in the mountainous Appalachian States—they are overwhelming, and combined with all land costs, the total is unbelievable.

Along with that, very much related, are the lack of what are called residential services, schools, the hospitals, stores, the other public facilities that are essential if we are to have a viable living environment.

Rural areas lack the governmental institutions capable of providing these facilities and services. They lack the building industry necessary to deliver the homes and the community development facilities. There is no rental management industry whatsoever, and there is an inadequate credit industry.

I would like to dwell on that a moment. For example, in 22 of our 55 counties in West Virginia, there are no savings and loans associations, the traditional source of single family loan moneys. Those banks that do exist in the rural counties will lend on real estate only at the most conservative terms.

Surprisingly, we have discovered that many of these banks are not capital-short. In fact, they are capital-surplus, but they prefer to invest their surplus funds in Government securities or in the more lucrative investments of urban areas.

Many of these obstacles can be traced to demographic factors such as very low population density. Declining population itself, in addition to the low population density, is a tremendously aggravating factor, especially when it is kept in mind that declining population statistics often reflect the loss of the working age groups.

In West Virginia, between 1950 and 1970, while the State was losing approximately 13 percent of its population overall, the number of citizens that were 65 or over increased by 40 percent. This means that those left behind, the very young and the very old, are the ones that are left to solve these areas' insurmountable problems.

Poverty of the rural areas, I need not go into at all. It is undoubtedly the most significant obstacle of all.

When you look to the existing housing stock, which you must look to when you talk about rehabilitation programs, housing allowances or leased public housing, you are not at all encouraged in those statistics, and those statistics have been shown by many.

Senator JOHNSTON. Mr. Biasucci, I had better cut you off at that point so I can make the vote.

We want to apologize for not having as much time as we would like to, to question you on these most vital issues. My State shares many of the same problems that you have in West Virginia, and perhaps to a lesser extent in Colorado, problems of not enough homes in the rural areas, and urban areas, too, but rural areas as well.

We share the same problems of high building costs and not enough credit and not enough income to pay what notes there are on whatever the house note would be.

I am persuaded that we very badly need to do something to provide housing for the rural areas.

All of your statements have been incorporated verbatim in the record and will be available to all of the members of the committee, and I think it will be very useful to us in formulating some solutions to this very vital problem.

Thank you, gentlemen, very much, for your testimony today.

The meeting is adjourned until 10 a.m. tomorrow.

[Whereupon, at 11:55 a.m., the hearing was adjourned, to reconvene at 10 a.m. on Wednesday, July 18, 1973.]

[Complete statements follow:]

Statement of George W. Rucker,

Research Director, Rural Housing Alliance,

before Senate Subcommittee on Housing and Urban Affiars,

Tuesday, July 17th, 1973

Mr. Chairman, Members of the Committee, my name is George Rucker and I am the Research Director of the Rural Housing Alliance, a private, nonprofit, research, information, and technical assistance organization dedicated to the improvement of housing conditions for low-income people in rural and small town America. We appreciate your invitation to appear and give you our views on rural housing programs.

We have provided members of the Committee with copies of the paper we submitted to Secretary Lynn earlier this year in response to his request for comments on Federal housing policies. It will provide you with our views on the subject in much greater detail than I shall attempt here today; and, if it is appropriate and you wish to make that paper a part of the hearing record, we would be pleased to see you do so.

RURAL HOUSING NEED

The 1970 Census of Housing indicated that nearly 4.3 million families were living in substandard units -- about 3.5 million of those lacked some or all of the plumbing fixtures we regard as essential in this country, and another 775,000 I have projected as occupying units which have all of the required plumbing facilities but are structurally dilapidated. Nearly 60% of those substandard occupancies -- some 2.5 million households -- are to be found outside of the nation's metropolitan

areas, America's rural areas which contain only 30% of our population.

The Census indicated that another 2 to 4 million households are in units which are of "standard" quality but are overcrowded -- depending on what definition you use for overcrowding. (The higher figure results if you consider all occupied units averaging more than 1 person per room as crowded; the lower figure if you apply that standard to households of less than 6 persons and a standard of more than 1.5 persons per room for households of 6 or more persons.) Nearly 30% of those crowded units are also to be found in nonmetropolitan areas.

Rural and small town America not only suffers from more than its share of inadequate housing, the fact that income levels are generally lower in such areas and that they suffer from a scarcity of credit and of other essential institutions means that it is that much more difficult for them to deal with their housing problems.

THE FEDERAL RESPONSE

Past programs of Federal housing assistance have suffered from some basic defects relative to their ability to serve rural and small town areas.

Public housing -- the oldest of the direct subsidy programs and that most appropriate for serving those with the lowest incomes -- has not only been quantitatively inadequate to the needs, it has been hampered by the fact that it is basically a local-initiative program, despite its Federal financing. In short, its effectiveness is subject to local will and capability, both

in terms of initiating the use of the program and in terms of operating effectively under it. The urban focus of the Federal bureaucracy involved with the program has not helped. Not only did it respond to initiatives which, until recent years, were overwhelmingly urban in origin; but it has generally preferred dealing with large, urban project proposals to handling smaller ones from rural areas and small towns -- probably regarding the former as a more effective use of their time and resources in terms of production levels.

Whatever the complex of reasons, the results are clear. A study we completed last year found that nearly half of the nation's counties -- containing nearly one-fifth of its population -- had no public housing program. The most recent data from HUD show that as of the end of last year, the 11 largest Housing Authorities in the country account for 30% of all the units. Almost half of all IHAs, those with less than 100 units each under Contract, account for less than 5% of all units.

Other HUD assistance programs -- those tied to Federal Housing Administration insurance -- run into the credit gap and the lack of institutions to make use of them when they make any effort to venture out of the metropolitan environment. Designed as they are, these programs are really harnessed to the chariots of the private sector -- particularly its lenders and developers -- and where those chariots aren't or don't go, the assistance doesn't go either. Again, the results are only too clear. During the thirty-month period from January 1970 through June 1972, FHA subsidy programs covered about 645 thousand units. Only 136

thousand of those -- or 21% -- went into nonmetropolitan areas.

Title V of the Housing Act of 1949 reflects Congressional recognition of the inability of FHA programs to operate effectively in rural areas and small towns. It authorized Farmers Home Administration to bridge the credit gap and it has certainly served to prevent the inequities in Federal Housing programs from being far worse than they are. But this agency, too, has been hampered. For one thing, it has had a tremendous increase in housing responsibilities in recent years with no concomitant increase in staff resources to handle them. The total program level for the agency (including housing) projected for Fiscal Year 1974 is almost six times the level which it handled in FY 1964; but the total personel resources which will be available next year are only half again as high as ten years ago!

Farmers Home has also been hampered by inadequate subsidy mechanisms. It has not had full comparability with its urban counterparts. It has never had a rent supplement authority, for example -- though I recognize that this Committee attempted to correct that particular inequity last year, and I hope you will perservere in the effort. Farmers Home Administration has not had the rehabilitation grant program that HUD had administered -- though I recognize that this particular inequity is not the responsibility of the legislative committees but of the appropriations process.

The point is that, although the FmHA structure is far more suited to the needs of rural areas and small towns than the HUD structure, the program levels permitted Farmers Home have been only about one-fourth those of the HUD programs, even if you count all FmHA-financed housing units, and only about one-eighth of the level of HUD programs if you count only those FmHA units covered by direct interest subsidies. Moreover, the fact that Farmers Home has been almost completely limited to the interest-subsidy mechanism, which is inadequate to the needs of really low-income families, has meant that its housing assistance has been unable to keep up with rising housing costs. Between FY '68 -- before Congressional authorization of the interest credit program -- and FY '72, the average income of a Farmers Home Administration borrower rose by 12%, though the size of the house he got went down by 9% (its cost went up by 40%). Finally, the pressure to handle substantially increased program levels with minimal increases in staff resources, is forcing FmHA to become more and more like its urban counterpart, FHA, and to depend increasingly on the private sector -- a development which we believe will erode further its ability to serve those most in need wherever they may be.

We are especially concerned about efforts to enable Farmers Home to hire private appraisers, building inspectors, and loan servicers. We believe that if these duties pass from the hands of Federal employees to those in private sector, the road will be

open to the kind of chicanery that nearly wrecked the Federal housing programs in many cities.

BASIC PRINCIPALS

This recital of past shortcomings indicate, it seems to us, some of the essential elements for a housing policy that is appropriate to the needs of rural and small town America.

People's Rights Are National

There must be a real acceptance of Federal responsibility and an end to the practice of leaving the national commitment in housing at the mercy of local will and ability, or at the mercy of the private sector's needs. In the past, all Federal programs -- whether administered by HUD or by FmHA -- have been essentially passive in character. What is needed, especially to do the toughest part of the job, is affirmative action. What is needed is a program that attempts to determine the need (where it is, who it is, and what portion of that need is likely to be met in the near future by existing programs and institutions) and then to move affirmatively to see that the gaps are filled and the job is done.

This is not to say that local initiative and local control should be ignored. We want to see the kind of local input that comes right from the people most concerned -- those now living in bad housing. But we feel there should be a powerful Federal agency that can give support to local institutions to the extent of taking over the job should local, effective, people-oriented groups fail to materialize.

Housing People Is Expensive

There must be a genuine acceptance of the fact that -- given the pattern of income distribution which exists in this nation, and has existed decade-upon-decade -- our national housing commitment cannot be met on the cheap. Those most consistently left behind by the private market forces and by government programs are the households at the bottom of the income scale, and they are the people that it costs most to serve. That cost is substantial -- there is no point in pretending that it isn't. But, it is certainly not prohibitive in an economy as potentially productive as ours.

Public Financing is Essential

Serving housing needs in a rural and small town environment demands the availability of credit, and private institutions can not be depended on for that availability. In addition, since the task is to serve those who require subsidy, it is far more economic and equitable to use direct Federal credit rather than paying the premium required to lure private credit where it would not otherwise go.

Subsidies Required To Reach The Poor

Adequate subsidy beyond credit resources is also an essential element -- and this is as true or truer for rural and small town areas as for the urbanized environment. A full range of subsidies makes the most sense in terms of permitting program flexibility to meet differing needs and possibilities. The greater relative stock of vacant, though substandard, hous-

ing in nonmetropolitan areas and the somewhat higher ratio of ownership there adds to the importance of program resources to upgrade and rehabilitate existing housing. But, as urban public housing has made crystal clear, capital subsidy is not enough for those at the bottom of the income ladder. The Census figures indicate that nearly half of the worst-housed have incomes of less than $3,000 a year and can't afford, out of those resources, the continuing costs of decent housing services, much less the initial acquisition cost of an adequate unit.

Effective Delivery System Needed

Finally, as we have tried to stress, the availability of a responsive housing delivery system is a particularly essential element in a housing policy that is to work in a rural environment. The public housing program has always reflected a recognition that the private sector can't be expected to respond to the needs of those most in need of housing assistance. In rural areas and small towns, that truism is even more to the point. Such success as Farmers Home Administration has had results in part, we believe, from its provision of an additional dimension to the real estate institutions in rural areas -- from its direct participation in the delivery process, counseling families, helping them find land, housing or a builder, carrying out inspections and appraisals at no cost of the borrower, etc. But, it remains true that the agency has a basically passive stance. What is needed are more in the way

of local institutions to work with whatever Federal programs are provided. Such institutions will not always create themselves -- they must be encouraged and assisted and, occasionally, even established directly.

In short, no housing assistance mechanism can operate any more effectively than the institutions which must see to the availability of the housing and the provision of the assistance. A housing policy which is to be effective in rural and small town America must take cognizance of that fact.

REORDERING FEDERAL HOUSING POLICY

We are convinced that no amount of 'tinkering' with the present housing system or programs will be truly effective in providing adequate housing to America's rural poor. To accomplish that, major reforms will have to be made in Federal housing policy --- reforms which effectively challenge the prevailing mythology and misconceptions to which much Federal housing activity has been tied.

Having observed much of this activity in rural areas during recent years, we believe that what is needed is the establishment of a comprehensive national housing program which equitably serves the full range of housing needs and which does not leave the national purpose at the mercy of local will or capacity, or private initiative and interest. The present patchwork of Federal housing assistance programs for the rural poor reflects our failure to establish such a comprehensive program, and results in neglect of millions of American families, and the enrichment of a few private interestsat an unnecessarily high public cost.

PROPOSED ALTERNATIVES

The bill before this Committee which would establish an Emergency Rural Housing Administration is clearly an attempt to move in the direction of a comprehensive rural housing program. In view of the fact that it contains elements directly relating to the basic principles we have

outlined above, I would like to devote the remaining part of my statement to an analysis of that general approach to the problems of housing the rural poor. I hope that our comments --- which grow out of our experience over the past seven years --- will be of assistance to this Committee as it considers this proposed legislation.

1. Establishment of a Separate Agency: The measure proposes to establish a separate and independent agency with specific responsibility and mandate for meeting the basic shelter needs of the nation's rural population, and provided with sufficient resources to deal with the credit, subsidy, and institutional gaps in rural America. It has been clear to us for sometime that such a need exists. The new structure should be dominated neither by the commercial agricultural interests of the Department of Agriculture nor by the overwhelming metropolitan/real estate/banker/builder interests of the Department of Housing and Urban Development.

By this, we do not see an agency created to compete with or duplicate the functions of the Farmers Home Administration. Over the years, I believe we have taken full cognizance of the broad range of credit and institutional needs affecting nonmetropolitan areas. Clearly, the well being and reconstruction of our rural areas are dependent upon the existence of an effective rural credit agency --- an agency with responsibility for meeting a broad range of rural needs, including housing, community facilities,

agriculture, and community and economic development. The Farmers Home Administration should continue to serve a unique and vital role in this regard, and we would urge that that role be strengthened.

However, it is equally clear that the agency is unsuited to the immediate task of rehousing the rural poor, since it has neither the resources, mandate, nor operational structure to undertake a comprehensive rural housing program. And, as a result of factors associated with the agency's evolution, Farmers Home has exhibited neither the initiative nor the imagination in dealing with a largely low income rural housing problem. We say this out of our experience of several years in working both with the agency and with local groups attempting to get it to utilize more fully the program authorities that it has -- including self-help and farm labor housing. The fact is that serving low-income people requires hard decisions by the local FmHA staff. It requires working with cases that are more difficult to process than average -- requiring more in the way of clearing up credit records and checking out employment and income experience. It requires taking the risks involved in lending to those with marginal credit records. All too many FmHA Supervisors find this goes against the grain.

You don't have to take our word for this shortcoming in the FmHA housing record. A newly releaste study done by USDA personnel -- Inadequate Housing and Poverty

Status of Households notes at the outset that FmHA "has difficulty in reaching the very poor" and that its programs "have not helped very many poor households obtain adequate housing." This study suggests that those below the poverty line should not even be considered as the target of Farmers Home Administration's housing programs.

We would see the need for an independent agency with the responsibility of providing minimum adequate housing, clean water, and sanitary facilities to the worst-housed of the nation's rural areas, and directed to ascertain the need for such housing in all areas with a population of 25,000 or less, to mobilize the resources of other agencies in developing a five-year plan for meeting those needs, and to act directly to insure that those people not being served by other agencies and programs are, in fact, served.

2. Provision of Adequate Subsidies: The proposed legislation would make available a range of subsidies designed to meet the needs for family ownership, home repair, and rental programs. For home ownership, the measure authorizes an imaginative subsidy mechanism which would allow payments on up to 50 percent of the principal to be deferred while protecting the investment interests of the government. As noted earlier in this statement, existing subsidy arrangements limiting assistance to the reduction of interest charged to the borrower, do not have the capacity to reach low income families.

With regard to families without sufficient income to acquire, operate and pay taxes and insurance on their own homes, the Emergency Rural Housing Administration Act would authorize the construction, operation, and maintenance of adequate rental housing, utilizing a sliding subsidy mechanism dependent upon a family's rent paying ability. In our view, such a program is most essential in light of the large number of families currently excluded by even the subsidized housing market. In the attached analysis of the bill (Item A) which we have prepared, we estimate that at the present time there exists over 1 million families in rural areas with an average monthly rent paying ability of only $14. For the most part, these families would be ineligible for public housing even if it were available. Consequently, a comprehensive approach such as that advocated in the proposed legislation would seem essential if we are serious about meeting the needs of the lowest income families.

And finally, the measure authorizes the provision of grants and loans for the purpose of bringing existing housing units up to an adequate level to insure a family's health, safety, and dignity. Such a provision is extremely important, particularly in Appalachia and Southeastern areas of the United States, where large numbers of families currently own their own homes and land but which lack the most basic amenities.

We believe that a major advantage which would flow from an agency funded directly out of the Treasury would be to free the taxpayer from the burden of providing housing facilities far more expensive than is necessary. In all of the housing programs, public and private, one of the standard preconceptions which control the type and cost of housing is its ready resaleability. That is considered essential for private investors whether it is in fact so or not. But a Treasury financed agency would not have to build a minimum two bedroom, 800 to 1,000 square foot house for every old person or couple who needed housing. Under the program proposed here, large numbers of families could be housed decently and safely in rehabilitated housing which private agencies would hesitate to finance because of their location and resaleability. Modest, durable, attractive houses half the size of the standard FHA/FmHA house could be built, quite adequate to the needs of couples or small families. Properly planned these houses would be economically expandable, but the cost of future expansion in the hands of more affluent ownership would not be a public expense.

This is not unjustifiable criticism of the private insured or uninsured lending programs. They are what they are. But there is no reason why the taxpayer should pay twice as much for satisfactory minimum shelter as the family requires.

3. Establishment of a Rural Housing Delivery System: One of the most significant and innovative features of the proposed legislation is the establishment of an effective rural housing delivery system responsive to local needs. Local rural housing associations, chartered under state law but serving as delegates of a Federal agency would serve to decentralize the basic administration and create, an important institutional structure in rural communities. Patterned after the rural electric cooperatives, they would be controlled by those they serve -- those who have the most direct interest in effective implementation of the rural housing program. These local agencies would also be required to enter into area responsibility agreements, in order to assure equitable geographic and racial service, and to assure fulfillment of national policy objectives in meeting the housing needs of "every American family."

The rural electrification program was established to fill a gap left by the private sector --- to offset an obvious deficiency in the market mechanism. It did so by utilizing the initiative of those most directly affected, the rural people themselves. The Federal government provided them with the necessary resources, in the form of credit and technical supervision, and it required, as a condition, that the local organizations operate as responsibly as if they were true public bodies.

Rural housing need reflects an obvious deficiency in the market mechanism. The logic of again tapping the initiative of those most directly affected seems to us compelling. The wisdom of again combining substantial Federal resources and responsibility in a partnership with state and local bodies seems to us appealing. The approach appears to offer the possibility of a housing assistance program which can be fully responsive to local needs and desires without abandoning the national concern for decent housing to local will and capability.

We would like to remind the Congress that there was a time when it had been proved to the satisfaction of almost everybody that rural areas could not be electrified. The power companies in collaboration with the American Farm Bureau had conducted studies which purported to prove with all objectivity that farmers could not afford to pay enough to justify rural electrification. Once REA came into existence the objectivity began to appear more like mist or myth than fact. The co-ops slashed the cost of construction per mile; they slashed the cost of meter reading to zero; they brought into being relatively inexpensive transformers....ad infinitum. Once it was decided that rural areas would be electrified, the vast ingenuity of our society was brought into play, in a multitude of big and little ways. Would became could.

This leads us to another general comment, regarding the creation of an independent agency. There have been some comments indicating that an independent agency has become an undesirable thing. We submit to you that if REA had been made a part of the Department of Commerce or the Department of Agriculture in its early years, the rate at which the program grew would have been tragically slowed, or the program might have died altogether, leaving marginal areas unserved to this day. In the Department of Commerce the power companies would have unlimited sway and would have crippled or destroyed the program. In the Department of Agriculture, the Extension Service would probably have had influence enough to achieve the same ends.

Rural electrification swept to a genuinely impressive achievement because (1) it was an independent agency with a single purpose; (2) it was financed out of the treasury and not mortgaged out to private money interests whose interests would have perverted the program; (3) the policies were set as a Federal responsibility; (4) the execution was local with consumer participation on an unprecedented scale. Rural electrification flowed from an assumption of Federal responsibility with local democratic control. We do not pretend the problems are identical. We do propose that the <u>principles</u> will apply.

4. Provisions for Direct Financing: Under the provisions of this bill, there would be established a central, public financing institution for rural housing and community facilities. The rural housing investment fund would be established by means of direct borrowings from the Treasury, with the funds to be used for the acquisition of land and construction of housing for all lower income people living in rural areas. Grant funds and other housing subsidies would be made from direct Congressional appropriations. On the basis of our experience, and as we have pointed out before, the Federal government can borrow money and lend it more cheaply than it can subsidize others to make credit available. But the present mythology which makes all public financing look like a "cost" rather than an investment has been utilized to block direct Federal lending. The funds to finance the construction, rehabilitation, and operation of subsidized housing should come out of the Treasury, from either tax revenues or Federal borrowings, and be applied as directly as possible.

CONCLUSION

Mr. Chairman, as is probably apparent, we believe that the introduction of the Emergency Rural Housing Administration Act and its consideration by this Subcommittee are most historic events in the evolution of the nation's rural housing policy. For too long, the basic needs of

our rural people have been seriously neglected. The results of such neglect and discrimination are widespread rural poverty and human misery. However, this society has the capacity --- both the resources and the knowledge --- to alter the indecent housing conditions which currently exist in rural America. I hope we have the commitment.

Thank you once again for the opportunity to contribute to these hearings.

Attachment

RURAL HOUSING ALLIANCE ANALYSIS OF
COSTS OF THE PROPOSED EMERGENCY RURAL HOUSING ADMINISTRATION

prepared for submission to

SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

"Estimate" is a polite word for "informed guess." The degree to which the "guess" in any given "estimate" is "informed" will vary according to how much is known in the first place and how much must be assumed in the process of making the guess. Estimating the costs of a not-yet existent Federal agency obviously involves an impressive (if not appalling) number of assumptions and those presented in this paper make no claim to great precision. On the other hand, they reflect an honest effort to arrive at approximate magnitudes of the costs involved in meeting the housing needs of the worst-housed in rural and small town America.

The beginning point for our estimates was the census data on households in units which lacked essential plumbing facilities, were severely overcrowded (averaging more than 1 1/2 persons per room), or both. Since the proposed ERHA would serve all rural areas and places of less than 25,000 population (both inside and outside of Standard Metropolitan Statistical Areas), we assumed that this territory includes 90% of all households outside SMSAs and 80% of all households within SMSAs but outside of their central cities.

Factors critical to the cost of serving households must include both their size and their incomes. Published data of the kind we were seeking are available by each of these characteristics separately but not by both together (i.e., we know how many of the households lacking plumbing or severely overcrowded had incomes of less than $2,000 and how many were 1-person households, but we do not know how many of those with incomes of less than $2,000 were 1-person households, or how many of the 1-person households had incomes of less than $2,000).[1/] This type of cross-tabulation was projected from the published data, in accordance with the assumption that, at a given income level, the larger the household the more likely it is to be in poor housing. The totals from the census data and our projections of the components by both income level and household size are presented in Table 1. The census data indicate nearly 3 million households in the proposed ERHA territory in housing need as we have defined it. They show one-third of that need accounted for by households with income below the $2,000

1/ The necessary cross-tabulations can be obtained from special runs of the Public Use Sample tapes, but the cost is in excess of $1,000 and funds were not available to secure those runs for this paper.

mark, and nearly one-fourth of it in 1-person households. We would guess that 15% - 17% of the total was accounted for by 1-person households in that lowest income category, and (at the other end of the spectrum), between one-fifth and one-fourth by households of 3 or more persons in the $7,000 and above income category.

To allow for the impact of Federal programs since the 1970 Census, we had to make similar projections on the basis of program levels in the intervening period.2/ Here, other assumptions were also necessary--estimating the distribution of assistance under the various programs between the territory to be served by ERHA and more urban areas, for example.3/ A major implicit assumption is that all of the households served by the various programs were drawn from the ranks of those included in our initial estimate of need. This is almost certainly an assumption contrary to fact. At the same time, we have no way of guessing what portion would have been; nor do we have any estimate of how many households might have improved their situation without reliance on the programs.

Data in the Fourth Annual Report on National Housing Goals indicate that some 1.4 million households were served by Federal housing assistance programs between the last quarter of Fiscal 1970 (the time of the census) and the end of calendar 1972. Our guess is that nearly half of this went into places of less than 25,000 population--the areas to be served by the proposed ERHA. In addition to this allowance for the impact of prior programs, we have excluded from the remaining constituency of the proposed ERHA households with income presumably sufficient to achieve adequate housing without ERHA assistance.4/ The results are presented in Table 2.

Not surprisingly, our projections indicate that prior programs have been most effective in meeting the needs of those in the $4,000-$7,000 income range, and least effective in meeting the needs of those in the bottom income category. We estimate an existing need for ERHA assistance of more than 2 million households. More than two-thirds of that need is concentrated in households with incomes of less than $4,000 a year, and we would guess that nearly half is in 1- and 2-person households with incomes of less than $4,000

2/ Cross-tabulations by household size and income are available for public housing occupants but not for the other assistance programs.

3/ Based on the fragmentary indicators available, we estimated that 56% of public housing, 36% of rent supplement housing, and 27% each of other HUD-assisted housing went into ERHA's proposed territory. All FmHA assistance was included.

4/ Excluded were 1-person households with incomes of $4,000 and above, 2-person households with income of $7,000 and above, all 3-to-4 person households with incomes of $10,000 and above, and half of the larger households with incomes of $10,000 or more.

Assistance to Upgrade Units

Based on tenure patterns reflected in the '70 Census, we estimate that 990 thousand of the households to be served are already homeowners (though of inadequate units). We arbitrarily assume that two-thirds of those are units which could be brought up to the required minimum standards. The proposed legislation authorizes grants of up to $3,500 where appropriate and if we assume that half of these current owners would require such grants, averaging $3,000 each, the total cost of the rehabilitation grant feature is projected at $990 million. The proposed legislation authorizes up to $1 billion for this authority.

Let us (just as arbitrarily) assume that one-third of those eligible for grants will also require loans to carry out the necessary rehabiliation work. Together with those not requiring grants, this would mean 440 thousand rehab loans in all, and if they averaged $5,000 in size, that would represent $2.2 billion in credit extended for upgrading of existing owner-occupied units. Assuming an average term of such rehab loans of 15 years and an average ability on the part of the borrowers to pay 3% interest on them, the annual interest subsidy costs on this part of the program would be $45.9 million a year (for 15 years).

Other Homeownership Assistance

To estimate the number of households which might be eligible for homeownership assistance (in addition to those included above), we set certain income minimums, below which it was assumed that rental assistance was more appropriate.5/ On this basis, we projected some 508 thousand households to be served under the regular homeownership assistance proposed (including the deferred amortization of up to 50% of the loan where income requires it). Assuming further that the average acquisition cost of the housing required ranges from $12,000 for a 2-person household to $17,000 for households in the 5-or-more-persons category, this indicates a gross credit requirement of $7.7 billion to meet the needs of those households.

Based on our projected income levels and the formula proposed in the legislation for computing adjusted income, we have estimated that the average household being served under this part of the ERHA program would have the ability to pay 2 1/2% interest on the full amount of the loan required, assuming a 40-year term. (This includes many households that would be able to pay higher effective interest rates

5/ It was assumed that 2-person households would require $2,500 or more income to qualify for homeownership assistance, 3- and4-person households would require $3,700 or more in yearly income, and that larger households would require at least $4,000 a year incomes.

but also many that would require deferred amortization of part of the loan and a 1% interest rate on the remainder.) This indicated that the cost to ERHA of bridging the gap between that interest return and the cost of money to the government would approximate $197.2 million a year.6/

Rental Assistance

The remaining 889 thousand households we assume will require rental housing assistance. Since these are the households at the bottom of the income ladder (too poor for homeownership), they require the deepest subsidy. In fact, we project their average rent-paying ability at less than $14 a month!

Assuming an average per unit acquisition cost for the required housing which ranges from $10,000 for a 1-person household to $17,000 for households of 5 or more persons, we project total capital requirements for rental housing at $11.0 billion. The annual amortization costs for that amount (at 6 1/4% over 50 years) would be $723.5 million and the potential rent from the households to be served reduces that by only $146.4 million, leaving $577.1 million to be made up by government subsidy. In addition, if one assumes an average of $1,200 per unit annually in operating costs (taxes, insurance, utilities, and maintenance), the 889 thousand units involved would require a total of almost $1.1 billion more annually to meet those costs.

Summary of Cost Estimates

In combination, these various estimates aggregate as follows:

(1) Gross capital costs for housing under the proposed ERHA are projected at $20,938 million. Most of this is expected to come back to the government eventually (either by repayment of the borrowers or when the housing involved changes hands). The low incomes of those to be served under the rental assistance program, however, indicates that something close to $4 billion in capital costs will have to be written off there.

(2) In the interim, the carrying costs which we have assumed represent the difference between amortization at the full cost of money to the government and amortization at the interest rate estimated as within the capability of the average household in each program. This difference we have projected at $820.2 million a year (including

6/ Throughout this paper an average of 6 1/4% is assumed as the cost of money to the government.

amortization of that part of the capital costs of the rental housing which we estimate will not be recoverable).

(3) Operating subsidies for rental assistance, in addition to the subsidy of full interest costs and a portion of the capital costs) are estimated as amounting to an additional $1,067 million per year.

(4) One-time rehabilitation grants totalling $990 million are contemplated.

One Last Caveat

In the event that the repetition of such terms as "estimate", "project," and "assuming" have not sufficienty reinforced our intial comments, we repeat that what has gone before is our "best guess" based on published data and in the absence of any sophisticated econometric model and related computer calculations. It should be regarded as little more than general magnitudes subject to substantial margins of error. Any attempt at such estimates is bound to suffer from that characteristic, dependent as it must be on assumption multiplied by assumption. The best basis for determining program costs will be actual program experience. In the meantime, our "best guess" indicates that the sums contemplated by the proposed legislation are at least realistic.

* * * * * * *

TABLE 1

Housing Need in ERHA Territory as of 1970 Census of Housing

(in thousands of households)

Income Level	Household Size				All Households
	1 Person	2 Persons	3 or 4 Persons	5 or More Persons	
Under $2,000	417-510	233-285	107-130	125-153	980.0
$2,000 - $3,999	144-176	203-248	121-148	126-154	660.2
$4,000 - $6,999	63-77	141-172	110-135	269-329	648.8
$7,000 - $9,999	5-7	17-21	110-134	190-233	358.6
$10,000 and over	0-1	0-3	98-120	197-241	327.7
All Incomes:	750.0	660.2	607.1	1,008.0	2,975.3

Source: Totals based on Tables D-4 and E-4, Metropolitan Housing Characteristics; included were 90% of nonmetropolitan households and 80% of metropolitan households outside central cities; households in "need" being defined as those in units lacking essential plumbing facilities and those in units averaging more than 1 1/2 persons per room. The cross-tabulations by both income and household size were projected on the assumption that, at any given income level, the larger the household the more likely it is to be in "need." In each case, a range is indicated reflecting plus-or-minus 10% of the projection.

TABLE 2

Estimated Need for ERHA Housing Assistance as of 1973

(in thousands of households)

Income Level	Household Size				All Households
	1 Person	2 Persons	3 or 4 Persons	5 or More Persons	
Under $2,000	382-468	219-267	96-118	121-148	910
$2,000 - $3,999	106-129	155-189	78-96	101-124	488
$4,000 - $6,999	---	80-98	31-37	179-218	322
$7,000 - $9,999	---	---	65-80	141-172	229
$10,000 and over	---	---	---	97-119	108
All Incomes:	542	504	301	710	2,057

Source: Estimated by subtracting from Table 1 projections of households served by Federal housing assistance programs during the fourth quarter of FY'70, all of FY'71 and '72, and the first half of FY'73. Total program levels taken from data in the Fourth Annual Report on National Housing Goals; distribution between places of less than 25,000 and places of 25,000 and above estimated on basis of data in HUD Statistical Yearbook (56% of public housing, 36% of rent supplements, and 27% of other HUD-assisted housing is assumed to go into ERHA areas); distribution among income levels and household sizes projected on basis of occupancy characteristics reported for programs by HUD Statistical Yearbook and by Farmers Home Administration.

GOVERNMENT AND HOUSING:
CITIZENS' RIGHTS AND FEDERAL RESPONSIBILITIES

(A Contribution to the Current Housing Policy Review,
Submitted Pursuant to HUD Notice 38 FR 8685)



Prepared by Rural Housing Alliance
1346 Connecticut Avenue, N.W.
Washington, D.C. 20036

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GOVERNMENT AND HOUSING:
CITIZENS' RIGHTS AND FEDERAL RESPONSIBILITIES

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Any evaluation of public policy should begin with a discussion of the goal. Thereafter, an assessment of the available evidence will hopefully permit us to judge whether current programs and policies are achieving the desired results or if the gap between goals and results is of such magnitude as to warrant public intervention. (In the case of housing policy, we are really discussing whether we should modify the forms of public intervention and if so how, rather than discussing whether or not to intervene. The intervention in housing, as in most parts of the economy, is long-established and many-faceted, and only a few selected aspects of it -- specifically those providing direct assistance to low- and moderate-income households -- have been suspended as a companion to the current review.)

In housing, the rhetorical goal is the achievement of "a decent home and a suitable living environment for every American family." This goal has been endorsed by Congress and President in two basic pieces of legislation. The present Administration has specifically reaffirmed its concurrence in recent months. Obviously, there can be substantial differences in definitions of what constitutes "a decent home," but those differences affect the magnitude of the gap between rhetoric and reality, rather than the existence of such a gap.

Dimensions of the Need

If we limit our definition of indecent housing to that which either lacks the normal plumbing facilities characterized as "essential" by the Census Bureau or is so severely crowded that it averages 1 1/2 persons per room, we find that the 1970 Census figures report 4.4 million households occupying such housing.1 / Some 2.5 million, or 56% of those, were located in non-

1 / These and succeeding figures, unless otherwise indicated, are from Metropolitan Housing Characteristics, Final Report HC(2)-1.

metropolitan areas (though such areas account for only 31% of the population).

Thus, by our most restrictive definition of indecent housing (lacking normal plumbing facilities and/or severely overcrowded), there is a gap of more than 4 million households between what is and our agreed-upon goal. A gap of that magnitude is, we submit, clearly sufficient to justify public intervention, especially in the world's richest society and especially since it is a minimal measure of need.

The traditional definition of "substandard" extends beyond the lack of plumbing and includes the structural condition of the unit. If this broader definition is utilized and the threshold for crowding is lowered to the more common figure of more than one person per room, then the 1970 statistics suggest that about 8.5 million households lacked decent housing.1 / Again, nonmetropolitan areas account for a disproportionate share of substandard and crowded units compared to population -- 43% of the total (some 3.7 million units) is to be found in those areas.

Alternatively the question of housing need can and ought to be approached from a different direction. It can be assumed that those whose income is insufficient to meet the Bureau of Labor Statistics Lower Budget figure for the cost of adequate housing are either not living in adequate housing or are paying an excessive price to do so -- therefore needing assistance in either case. We have estimated that 17 million households are in that situation.2 / Again, the nonmetropolitan areas, with 37% of that (6 million households), account for more than their "fair share."

1 / Due to a revision in methodology, a special estimate of "substandard" housing is being prepared by the Census Bureau. Prior to their availability, we prepared our own estimates which appear in Rural Housing Alliance, OEO and Rural Housing, Table 1.2., pp. 16-17.

2 / Ibid., pp. 20-22. The fact that this estimate of the income gap is of a magnitude four times the size of our first figure (based on plumbing facilities and extreme overcrowding) is testimony to the degree to which incomes are maldistributed in our society.

The Nature of the Need for Public Intervention

The same evidence also serves to indicate some major aspects of what is required in the way of public intervention.

(1) Income Maldistribution: There is a clear inverse relationship between income and decent housing. Less than 5% of households reporting incomes between $7,000 and $10,000 were in housing which lacked plumbing or was severely overcrowded; more than 15% of households with incomes of less than $4,000 lacked decent housing.1 / This unsurprising fact merely underlines the accepted truth that housing need is, to a large extent, an aspect of inadequate income. What public intervention must do, therefore, is offset the gap between income and the market cost of decent housing. (This, of course, has been the major focus of most recognized housing assistance programs.)

(2) Geographic Distribution: Beyond income, however, there is a clear relationship between geography and decent housing. Here we have in mind not only the differences from one region of the country to another, but the difference between rural areas and small towns and the nation's more urbanized communities. For families in the $4,000 to $7,000 income bracket living in metropolitan areas, the incidence of housing lacking plumbing or severely overcrowded was just over 6%; for families in the same income category living in nonmetropolitan areas, the incidence was nearly 14%. This disparity is characteristic of every region of the country.2 /

The disproportionate size of the housing need in rural and small town America is in part due to the low incomes there, but it is also the result of a broader institutional imbalance

1 / For summary national statistics see "Income and Housing," Low-Income Housing Bulletin, February 1973, pp. 3-4.

2 / See, for example, estimates in OEO and Rural Housing, Table 1.2, pp. 16-17.

which affects not only housing, but virtually every sphere of public policy. So ubiquitous is this imbalance that it has led us to coin the term "metropollyana" as a shorthand for the mindset which unconsciously perpetuates it.1 /

Crucial to housing policy is the credit gap which reflects the greater availability of housing credit in metropolitan areas, as well as the lack of other institutions to "hustle" the housing system, which results in a level of housing starts in nonmetropolitan areas only 85% as high as in metropolitan areas (after adjusting for population differences), even though the need is in fact greater in the former.

The point pertinent to the present discussion is that the private sector cannot be depended on to close the housing gap wherever it is, even if the income gap is compensated for. Indeed, the record of public programs makes it clear that they too do not necessarily go where the need is. We have estimated that even at its recent peak, Federally-assisted housing output in non-metropolitan areas approximated only 34% of need, while in metropolitan areas it was approximating nearly 53% of need.2 / In short, far less recognized than the need for public intervention to bridge an income gap is the need for public intervention to bridge an institutional gap and to assure geographical as well as income equity.

(3) Racial Discrimination: Finally, and again generally recognized, is the fact that housing quality is related to race. In non-metropolitan areas, 49% of Black families with incomes in the $4,000 to $6,000 bracket occupied housing which lacked plumbing and/or was severely overcrowded; but only 12% of the non-Black families in the same income category were in that situation.3 / The third major aspect of the need for public inter-

1 / For a discussion of rural/urban differences and the evidence of the institutional gap, see ibid., pp. 8-11 and 23 ff. For additional discussion of metropollyana, see Richard Margolis, "Metropollyana and Rural Housing," New Leader, February 5, 1973; and "Welfare and Metropollyana," Low-Income Housing Bulletin, April 1973, p.3.

2 / OEO and Rural Housing, Table 1.6, p.3. Even if one wishes to argue with our estimated level of real need, the metro/nonmetro disparity is evident.

3 / This disparity is not, of course, limited to nonmetropolitan areas. In metropolitan areas, 12% of Black families in that income category occupied housing lacking plumbing or severely overcrowded, compared with 5% of the non-Black families in the same income group.

vention then is to secure racial equality and the integration which has long been recognized as essential to that equality.

Citizens' Rights to Housing Are National

If the need for public intervention is conceded, the question may remain: is Federal intervention required? The fact that housing is a basic need and ours an interdependent society makes it obvious that the matter is one of national concern, and the Administration's reaffirmation of the legislative goal is an endorsement of that fact. The argument then must turn upon the question of whether or not the national concern can be satisfied without Federal intervention -- and the degree of Federal intervention required can be judged on the basis of its necessity to assure that the national concern is satisfied.

The point can be discussed in terms of the three major aspects of intervention outlined above. Can state and local governments, for example, be relied on to offset the gap between income and the cost of adequate housing? Certainly not out of their own resources. The size of the task alone precludes that. The current reassessment of Federal housing policies includes a fresh look at the numerical goals endorsed by Congress and the previous Administration in the 1968 Act and initially endorsed by the present Administration,[1] though that endorsement has now been withdrawn, at least tentatively. We would suggest that the total production goal of 26 million units is probably too low.[2] The goal of 6 million assisted units is clearly inadequate to the task of providing subsidy to all those whose income is insufficient to purchase it on the private market without subsidy.[3]

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1 / In the Second Annual Report on National Housing Goals, p.iii.

2 / The projection of new household formations, for example, has been characterized as "hopelessly inaccurate" by the Committee on Trends and Economic Policies of the United States Savings and Loan League (see Savings and Loan News, February 1973, p.29). The projection of losses from the inventory is also probably too conservative (a comparison of the 1960 and 1970 Census figures with estimated starts during the decade suggests that net losses from the inventory approached 5.4 million units; if only 60% of these were in standard condition, that would be more than 3 million units in the decade, instead of the 2 million used in the goals projections). If one includes crowding in the definition of inadequate housing to be eliminated, the total production required probably averages 3 million starts a year, rather than 2.6 million. (On this, see OEO and Rural Housing, pp. 26-29.)

3 / Our own estimate is for 13 million assisted starts, with 5 million of those to be in non-metropolitan areas. See ibid., pp.31-32.

Not only are state and local resources inadequate to the task, they are certain to be maldistributed in a way that matches (or mismatches) the least resources with the greatest need. Indeed, there seems to be general recognition that Federal resources are required for housing assistance and the debate should focus on how these are administered and by whom.

In this respect the other two aspects of the need for intervention take on increased importance. Can state and local government be relied on to intervene in such a way as to overcome the geographic imbalances? Since all the evidence, both statistical and anecdotal, suggests that they are themselves a major aspect of the institutional imbalance which we have cited as a factor in the problem, the answer is clearly negative. Moreover, the historical record of reliance on state and local governments to act in such a way as to assure the national rights of those of limited political power are hardly reassuring -- a point which brings us to the third aspect.

Can state and local governments be relied upon to intervene in such a way as to end racial discrimination and achieve racial integration? Again, the answer is clearly negative. Appropriate intervention requires not only Federal resources, but Federal responsibility.

Federal Intervention in Perspective

As noted earlier, there has long been Federal intervention in various ways to provide housing assistance either directly or indirectly. A review of the major forms of this intervention as well as an evaluation of other possible forms of intervention is the subject of the remainder of this paper. Our analysis and recommendations are designed to serve as a guide to public policy in housing assistance -- a guide which will focus on the need to: 1) be more effective in dealing with all three of the special problems we have indicated, 2) be more equitable than either the private sector or previous forms of intervention, and 3) operate more economically than in the past. 1/ Throughout the discussion, we will attempt to give particular attention to the matter of geographic equity, of offsetting the effects of metropollyana. Our particular interest and experience in the housing problems of rural areas and small towns and makes us acutely aware of the need to emphasize the special problems there. 2/

Homeowners' Deductions

The oldest and largest Federal housing subsidy is that provided indirectly by the deductibility from taxable income of mortgage interest payments and property taxes on owner-

1/ On this point we are not referring to a desire for parsimony, but rather a search for equity to the taxpayer, both in minimizing the cost per unit of assistance and in assuring the most equitable distribution of the burden of the cost of that assistance. See the discussion of this in Clay Cochran and George Rucker, "Every American Family: Housing Need and Non-Response," Papers Submitted to the Subcommittee on Housing Panels, Vol. 2, especially pp. 531-5. (A revised version of this paper will appear in Donald Reeb (Editor), Housing the Poor, to be published this year by Praeger.)

2/ It also makes us acutely aware of the tendency of HUD officials to forget about that part of the problem -- the most recent example being the failure to make clear in the Federal Register notice of April 5th that the public was being invited to comment on rural housing programs as well as those administered by the Department of Housing and Urban Development. (We have commented on this in a letter of April 12th to Secretary Lynn.)

occupied housing. 1/ The estimated cost to the Treasury is more than $5 billion a year. 2/ This subsidy dates back some six decades. It is neither equitable nor economic. Even if one waives its discrimination against renters as justified by some social value attaching to homeownership, there remains the gross inequity of increasing the subsidy as income increases which results from the form of subsidy. This same deficiency makes the intervention unnecessarily expensive. Based on figures presented in the Fourth Annual Report on National Housing Goals 3/ we estimate that replacement of the present system of allowing deduction of the full amount of interest and property taxes with a tax credit system which would give the homeowner a credit equal to 7 1/2 % of his payments to mortgage interest and property taxes would provide those with incomes below $7,000 with greater assistance than they currently get, but would reduce by 35% the total drain on the Treasury. 4/ Inequitable and excessively costly, this

1./ To question (as Secretary Lynn did recently) the appropriateness of terming this a "subsidy" seems to us disingenuous at best. Under this provision of the tax law, we in effect tell citizens: 'If you will buy your housing instead of renting it, we will reduce your tax bill somewhat, thereby giving you more money to spend on your housing or on other things.' Under Sec. 235 of the National Housing Act, we tell citizens: 'If you will buy housing under this specific program, we will reduce your interest bill somewhat, thereby giving you more money to spend on housing or on other things.' The only discernible differences are that the former appears in a different part of the code, applies to everyone rather than only to those with limited incomes (indeed, favors most those with the most income), and reduces their tax payment instead of reducing their interest payment. These differences certainly distinguish the mechanisms involved -- we don't see that they change the character of what is being done.

2./ Joint Economic Committee, The Economics of Federal Subsidy Programs, Staff Study, p. 152.

3./ See p. 48.

4./ If we wanted to go another step away from the regressivity of the current system, we could provide a tax credit of a fixed amount (rather than one tied to the actual expenditures for interest and taxes) which would improve the tax situation of those in the lowest income brackets the most, leave those below the $10,000 level at least as well off as currently, and still reduce the net cost to the Treasury by more than 40%.

subsidy has relatively little impact on the major factors we have cited as resulting in housing need: inadequate income, geographic inequity, and racial discrimination. In fact, it probably aggravates the system's shortcomings from those standpoints.

FHA Mortgage Insurance

The second oldest form of Federal intervention in housing is the Federal Housing Administration (FHA) mortgage insurance program enacted in 1934. As is generally recognized, the primary purpose of this intervention was to revive the housing finance sector (in major disarray at that point) and through it the housing construction industry -- in short it was and is an intervention designed to assist private market operation. Though never accounting for more than a minority share of housing credit, the program stimulated a new pattern in the industry. Socializing the risk demonstrated the practicability of longer-term, lower downpayment, lower interest-rate financing and thereby expanded the private market without direct subsidy. The FHA insurance program made money over the years and has now stimulated a growing private insurance industry. 1/

While contributing to at least a marginal reduction in the annual cost of housing (by encouraging a longer amortization period for capital costs), the dependence of FHA insurance on the private market has meant acceptance if not intensification of market inequities. Thus, for example, 80% to 90% of the units covered by FHA insurance are consistently inside Standard Metropolitan Statistical Areas. 2/ Even within metropolitan areas, the "red lining" of minority and mixed neighborhoods was prevalent until recent years. Racial minorities fail to benefit from the program in fair proportion to their numbers. 3/ In short, the intervention has not been

1/ Which, if matters run true to form, will probably "skim the cream" of the market, leaving FHA with the least lucrative and most risky portion.

2/ Figures for the most recent decade appear in the 1971 HUD Statistical Yearbook, Table 173, p. 171.

3/ A HUD survey covering subdivision development in the mid-1960's was reported by the U.S. Civil Rights Commission (in Federal Civil Rights Enforcement Effort) to show less than 4% of the units covered by FHA insurance going to Blacks, though the latter constitute 11% of the population.

equitable, nor has it been effective in terms of directly impacting the goals of housing assistance outlined earlier. It can be argued that it has had a marginal impact, through an expanded housing finance and construction industry, in stimulating the "filtering down" of housing -- which has traditionally been the fortuity most relied on for meeting the housing needs of lower income households. It can also be argued, however, 1/ that the filter process itself is the main contributor to our socially undesirable pattern of racial and economic segregation.

Public Housing

The earliest national recognition that direct Federal intervention is required to meet lower income housing needs is reflected in the public housing program enacted in 1937. By underwriting the capital costs of the housing (and, more recently, part of the operating costs), this program enables local public agencies to provide housing to low-income families at rents within their means. Judged purely in terms of the incomes of people served, it has been the most effective Federal program, approached only by the more recent rent supplement program combined with interest-subsidy financing (discussed below). 2/ The program's effectiveness in this regard has not been matched by its effectiveness in going where the need is. A recent study showed that non-metropolitan areas, with 44% of the nation's poverty households, had only 22% of the public housing units under Annual Contributions Contract. One-third of a century after the program's inauguration, it still had not reached nearly half the nation's counties containing nearly one-fifth of its population. 3/ The program's failure in furthering racial equality and integration is mored widely recognized. This failure is reflected in contrasting ways. On the one hand, while Blacks constitute 30% of the poverty population, they account for nearly half of the tenant families in public housing.4/ (To a very great

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1/ And is, for example, by Anthony Downs, in "Are Subsidies the Best Answer for Housing Low and Moderate Income Households," Urban Lawyer, Summer 1972. See also his Federal Housing Subsidies: Their Nature and Effectiveness and What We Should Do About Them, Summary Report, pp. 5-6.

2/ See the average incomes of families moving in during 1972 for various programs presented by HUD to the House Appropriations Committee in that year's hearings, cited in Cushing Dolbeare, Federal Tax Rip-Offs: Housing Subsidies for the Rich, Table 1, p. 4B.

3/ Rural Housing Alliance and Housing Assistance Council, Public Housing: Where It Is and Isn't.

4/ See "Public Housing: A Statistical Profile," Journal of Housing, August-September 1973.

extent, this has been the result of the geographic distortions in the program.) On the other hand, the program's tendency to concentrate its projects in racially segregated neighborhoods has led to major court decisions aimed at breaking that pattern.[1] For all races, the limited scale of the program (producing units sufficient to house less than 15% of the nation's poverty households), has given it that lottery aspect emphasized by some critics.[2]

The relative economy of the public housing subsidy mechanism is a matter of dispute, and difficult to determine in the absence of more agreement than we now have on the costs to be counted and the objectives to be achieved. Assistant Secretary Norman Watson reported last year that operating costs in public housing were, on the average, significantly below those for operating comparable private housing. Similarly, figures furnished by HUD to Congress indicated that the annual per unit subsidy cost for leased public housing is substantially less than for rent supplements in private housing, though the latter was serving a higher income level.[3] One aspect of the program which is seldom commented on seems clearly uneconomic -- its utilization of tax-exempt local revenue bonds for financing. This approach is superficially appealing, since it results in an interest rate on LHA bonds which is significantly below that on even Federal securities. But the price of that lower interest rate is a tax subsidy to the investors which dwarfs its advantages. The Treasury loses up to twice as much in tax revenues on such bonds as is saved by the lower interest rate.[4] Since, in the public housing program, the Federal government underwrites both principal and interest on the LHA bonds, this means that the Treasury is giving up $2 in tax revenues for every $1 it saves in interest costs on public housing financing, hardly a rational proposition.

1./ Most notably, the Gautreaux case.

2./ For example, Richard Muth, Public Housing: An Economic Evaluation and Irving Welfeld, "Toward a New Federal Housing Policy," The Public Interest, Spring 1970. The program's pattern over most of its existence has meant that the rural and small town poor have not even been given a chance to participate in the lottery.

3./ See Dolbeare, op.cit., Chart III, p. 2C. The figures for owned public housing are even more striking in terms of a lower per unit annual subsidy cost, but presumably are biased by the inclusion of projects dating back as much as two or three decades.

4./ Estimates cited by Philip Stern, The Rape of the Taxpayer, p.66. As in other tax incentive devices, the diseconomy is compounded by the inequity. Stern notes (p. 64) that 96% of the benefits from the exclusion from taxable income of interest on local government bonds goes to the richest 8% of the taxpayers.

Farmers Home and Rural Housing

The Housing Act of 1949, in addition to its statement of the much quoted national goal and its short-lived attempt to call into being a public housing program of substantial magnitude, provided a small but significant recognition of the need for special intervention to offset the credit gap in rural America. Title V of the Act authorized the entrance of the Farmers Home Administration (FmHA) into the field of housing, though direct loans for farm housing. FmHA's authority, which was expanded in the 1960's to include non-farm rural housing, was in recognition of the need to substitute a Federal institution where the private market was inadequate. In addition to using Federal credit to fill the rural credit gap, FmHA provided a substitute for other aspects of the institutional gap. Its 1,700 county offices serve an essential outreach function (for which HUD's FHA has to depend on the real estate agents, builders, and lenders). This has meant, among other things, savings of 10% to 15% or more in the acquisition cost of housing to borrowers. 1/

Though the use of direct loans has since been replaced (in the interest of budgetary appearances -- discussed below) by an insured loan system, FmHA credit continues to function much like a direct loan from the borrower's standpoint, since FmHA originates and services the loan. FmHA has also pioneered in a small but significant way, by fostering the self-help approach to housing, under which lower income households are allowed to substitute their labor for a portion of the capital costs of housing -- a program which, with added encouragement by the Office of Economic Opportunity, has brought homeownership to families even below the poverty line.

1/ With increasing pressure of program levels and restricted funding for administrative staff, FmHA has, in recent years, been forced into increased reliance on the builders and has come to copy FHA in significant ways. However, its program structure has retained the direct contact between consumer and Federal staff.

In short, FmHA has played a unique role in offsetting at least some of the factors resulting in geographic imbalance. As will be noted below, its program levels have more clearly accorded with regional needs than those of FHA.1 / The agency's record of housing loans to Blacks, at least in recent years, has been creditable.2 / That it has not been singularly effective in reaching very low-income families is largely to be explained by the fact that it's available subsidy is largely limited to lower interest rates (discussed below).3 /

Tax Shelters

With extension, in the mid-1950's, of accelerated depreciation to real estate investment, yet another feature of indirect intervention on the housing market appeared. Once again, it was an intervention keyed to the private sector's operations rather than one designed to offset that sector's inadequacies. Its cost is substantial ($275 million a year, according to Joint Economic Committee estimates 4 /),and it is highly regressive in its impact (with 70% of the tax saving going to the top 5% of the taxpayers 5 /). As a means of overcoming the income gap in housing, it seems ineffective as well as inequitable and uneconomic. A monitoring of syndication offers ser es to impress one with the predominance of luxury apartment projects. As one builder notes, the provision distorts the industry by stimulating housing not primarily to meet housing needs, but to meet the demand of high-bracket investors for tax write-offs, a proposition that can easily mean housing of the wrong type, built at the wrong costs, in the wrong places for the wrong people.6 /

1 / It should be noted, however, that this element of effectiveness varies significantly from state to state within regions.

2 / See "FmHA and Minorities," Low-Income Housing Bulletin, January 1973, pp. 6-8.

3 / Lest this be mistaken for an uncritical endorsement of FmHA, we call special attention to our statement before the House Banking and Currency Committee in 1971, which details shortcomings both in legislative authorities and in the administration of them. See also Clay Cochran, "The Scandal of Rural Housing," Architectural Forum, March 1971.

4 / Joint Economic Committee, op. cit.

5 / See "Real Estate Tax Shelters: A Builder's Blast", Low-Income Housing Bulletin, April 1973, p. 2.

6 / Ibid. Builder George Deffet cites particularly the study done by Taubman and Rasche for the Joint Economic Committee which suggests that the impact on production and rent levels of the tax shelter is marginal.

Its "front-loading" of the advantages to investors is not necessarily consistent with an interest in long-term effective management, as is frequently pointed out. In short, it appears to have slight impact (and that not well focused) at substantial cost and to leave unaffected the questions of geographic and racial inequity.

Interest Subsidies for Moderate-Income Families

Just prior to the decade of the 1960's, Congress moved to broaden significantly the focus of Federal intervention in housing, by turning its attention to what has come to be called to "moderate-income" sector -- households with incomes too high to be served by the direct assistance of public housing, but inadequate to achieve housing on the private market at reasonable portions of that income. Assistance to the moderate-income sector began with the elderly and was later broadened to the non-elderly. The chosen mechanism was reduction in the interest cost of financing housing (a logical choice since the interest component is generally the largest single element in monthly housing costs). At first, the below-market-interest-rate (BMIR) financing was made available through direct loans (e. g., Sec. 202), and then through Federal "take-out"of private loans (e. g., purchase by the Federal National Mortgage Association (FNMA) of Sec. 221 (d) (3) loans). Because of the budgetary impact of these approaches,1/ they were, in the late 1960's, replaced by the device of paying part of the interest costs on behalf of the borrower. This spreads out the cost of the subsidy, but at the price of increasing that cost considerably, as the General Accounting Office and the Joint Economic Committee point out.2/

There can be little question but that interest subsidy programs have played a major role in stimulating housing production and in making available to families improved housing at lower cost to them.

1/ Which results from our irrational system of Federal accounting, and its refusal to take appropriate cognizance of outlays which are in truth investments rather than expenditures. A "Truth-in-Accounting" capital budget approach could be a major element in housing reform.

2/ The latter estimates the potential saving from direct lending at as much as $4 billion over the next six years (Housing Subsidies and Housing Policy, p. 8).

Criticism that the programs have not served the poor is, in a sense, unfair -- they were not designed for the poor.1/ The limited scale at which they operate results in the "lottery" effect previously noted with regard to the public housing program. This is compounded in the case of FHA programs by the fact that a family need only qualify on income grounds, it need not demonstrate that its current housing is inadequate. Farmers Home Administration programs are superior on this count, since they are limited to those who can demonstrate the need for assistance to secure adequate housing (not a requirement under Sec. 235).

Again, dependence on the private market mechanism reduces the ability to achieve geographical equity. As the GAO has noted, 2/ the Northeast region received only 11% of the 235/236 units in the first few years of the program, though that region accounted for 18% of the housing which either lacked plumbing or was overcrowded (or both).3/ On the other hand, the West, with only 14% of the inadequate housing, accounted for 20% of the 235/236 units. It is significant that Farmers Home Administration programs did not reflect the same regional mismatch.4/ This is indirect evidence of the relative advantages of FmHA's program structure. Even more striking than the regional imbalance reflected in FHA's interest-subsidy program is its failure to serve those in rural areas and small towns. HUD reports only 15% of its Sec. 236 units going to nonmetropolitan areas,5/ and the proportion of Sec. 235 units in such areas is probably even lower. Finally, reliance on the private sector requires intervention in kind as well as in financial assistance. The scandals in FHA programs are testimony to the need for consumer counseling and consumer protection through adequate inspection and appraisal.6/

1/ Whether these moderate-income assistance programs have been given undue emphasis at the expense of the low-income programs is another question.

2/ Opportunities to Improve Effectiveness and Reduce Costs of Homeownership Assistance Programs, Report B-171630, Appendix I, p. 59.

3/ We have used Census data on housing need rather than the HUD estimates used by GAO for its comparison.

4/ The GAO compared FmHA program levels with rural population. We have, as we did for HUD programs, compared it with Census data on housing need in places of less than 10,000 population (as tabulated in Economic Research Service Statistical Bulletin 492, Housing Conditions in Areas Served by Famers Home Administration Programs, Table 5). At least regionally, the distribution of program levels did not vary more than 1% from the distribution of need.

5/ See 1970 HUD Statistical Yearbook, Table 174, p. 165 (this breakdown seems to have been dropped by the 1971 edition).

6/ Which FmHA provides as a public service to its borrowers.

Another aspect of this is the need to keep costs down while keeping quality up. There is a tendency in the industry, candidly recognized by those familiar with the programs and indirectly reflected in the statistical evidence,1/ to "build to the top of the market," in price terms.

Rent Supplements

In the mid-1960's, while expending assistance to moderate-income households, Congress added a new mechanism for low-income assistance, rent supplements.2/ It is like leased public housing in some ways -- it relies on privately-owned housing, and the subsidy is deep enough to cover all of capital costs and part of operating costs. On the other hand, rent supplements do not involve a local housing authority and they are tied, to a degree not characteristic of leased housing, to new construction. (This latter point may be a factor in the somewhat higher annual per unit subsidy costs reported for the rent supplement program.3/) From the standpoint of rural areas and small towns, rent supplements have a special disadvantage; they are limited to housing insured by FHA, FmHA having no comparable authority to subsidize rental housing for low-income families.4/ Thus, although rent supplements are less concentrated in metropolitan areas than the Sec. 236 program, we estimate that more than 61% of all rent supplement units are to be found in such areas. Regional disparities are substantial also, since five states account for nearly 40% of all rent supplement units.5/

1/ See, for example, Rural Housing Alliance, FmHA's Interest Credit Program: The First Two Years, especially p. 6.

2/ Ironically, it was initially proposed by the Administration as a moderate-income program.

3/ See Dolbeare, op.cit.

4/ The only FmHA program with a deep subsidy is its small farm labor housing program; and even here, only 90% of capital costs can be covered -- less than in public housing or rent supplements. For a discussion of the special housing needs of farm labor and of program recommendations, see Lee Reno, Pieces and Scraps.

5/ See "The Geography of Rent Supplements," Low-Income Housing Bulletin, November 1972, p. 2. The five states are California, Florida, New York, Ohio, and Texas.

To summarize, Federal intervention in housing has been largely indirect and largely for the benefit of upper income groups, with tax subsidies accounting for two-thirds of all subsidy costs (and this fails to count the cost of tax-exempt interest on public housing bonds). Benefits from the direct subsidies are, according to one analysis, 1/ about evenly split between low-income and moderate-income groups, though the latter accounts for a rapidly increasing share. Most intervention, both direct and indirect, has sought to expand the operations of the private sector (a reflection of our basic -- if unconscious -- reliance on the filtering mechanism to serve the poor). They have therefore failed to adequately offset the deficiencies of that sector, and instead have perpetuated (possibly even intensified) patterns of geographic distortions such as that between rural and small town areas and metropolitan America, while doing little to eliminate patterns of racial discrimination. If the failure of housing programs to serve more fully those most in need is really a matter of concern to this Administration, they would do better to take a hard look at the indirect assistance mechanisms than to terminate the direct ones. Reform of the tax subsidies could, just incidentally, provide a substantial portion of the revenues needed to expand the direct assistance programs which, though certainly capable of improvement, remain far more related to housing needs than do the indirect interventions.

1/ Henry Aaron, "Federal Housing Subsidies," The Economics of Federal Subsidy Programs, Part 5 - Housing Subsidies, Tables 3-5.

Proposed Alternative Forms of Intervention

We have discussed major shortcomings of past programs. What about the alternatives being proposed?

Housing Allowances

One of those being given the greatest consideration is the housing allowance. It is often contrasted with the current "production-oriented" programs as if it would be self-operating and thereby free of corruption and scandal. But, as one commentator puts it: "If swindlers have so readily exploited a program based on the government's mere agreement to underwrite the credit of the poor, who can doubt that they will be quick to exploit a program that puts cash right into the hands of the poor?" 1/ Though designed to bridge the income/cost gap, it ignores the other purposes of intervention. By leaving all major decisions to the market mechanism, it will not only mean that, in the absence of supply intervention as well, costs are likely to go up unchecked, but gives no assurance of geographical or racial equity. 2/

We note that the current experiments to test the housing allowance exhibit no evidence of concern about the special problems of small towns and rural areas -- most notably their lack of an adequate delivery system to provide the housing which the allowance will theoretically purchase. 3/

Expanded Tax Shelters

Enamored of the reduction in budgetary outlays, a number of people are suggesting more use of the indirect subsidies available through the tax structure. As is surely clear by

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1/ Joseph Fried, "Housing Allowance: The New Panacea," The Nation, March 5, 1973. Only the roles need change: builder to landlord, fee appraisor to building inspector, etc.

2/ It suggests the image of Uncle Sam saying to Black households: "Here's a few bucks. Now you go integrate the suburbs."

3/ Only one of the tests designed to monitor various administrative mechanisms appears to have any rural aspect.

now, we regard that as a call for more of the worst features of the present system. Open subsidies are far easier than hidden subsidies to direct at specific objectives, and to evaluate in terms of their cost-effectiveness.

Trailers

The continuing boom in "mobile homes" 1/ is leading an increasing number of people to suggest them as the answer to low-income housing needs. This is, in fact, a variant of the search for a technological "holy grail" -- but combined with an unspoken willingness to lower the definition of a "decent home." It is our contention that mobile homes are not significantly cheaper than conventional housing in terms of space afforded; and that much of the differential is explained in terms of less quality. 2/ When one includes the higher costs of financing, the costs of site rental, and the depreciation factor, the mobile home becomes even less of a comparative bargain. The degree to which mobiles now dominate the market in housing selling for less than $15,000 is testimony primarily to the general abandonment of that market by the conventional housing industry. 3/ There may be a need for intervention to assure production of decent housing at the lower-end of the market. If so, however, let us establish the Minimum Property Standards that should govern and then the mobile home industry, or any other technological approach, can compete on the basis of those standards. Otherwise, mobile homes remain not an alternative resource but a substitute for decent housing.

Block Grants

Proposals for some sort of "housing revenue sharing" are difficult to deal with in the absence of more specific detail. While the idea of strengthening the ability of local agencies to respond to housing need is appealing and the use of some sort of a rational formula for the distribution of resources according to need might aid in offsetting the current

1/ We are tempted to argue that the old name is superior since, in our view, they are neither "mobile" nor "homes" but rather a "trailer" to an inadequate public policy on housing.

2/ See Richard Margolis, Mobile homes and the Rural Poor: An Alternative Non-Solution, and OEO and Rural Housing, pp. 194 - 201.

3/ See "It's Time to Take the Low-Price Market Back from the Mobiles," House and Home, April 1971.

inequities of geography, it is clear that the Federal government must do substantially more than mail out the money. If our experience in the search for equality of educational opportunity have taught us anything, it is that national concerns are not safely left to the will of local government. And, as we have argued earlier in this paper, institutional inadequacies at the local level are a part of the housing problem.

CONCLUSIONS AND RECOMMENDATIONS

Introductory Notes

1. Rural Housing Defined--The term "rural housing", herein, is intended to refer to housing for people in towns of 25,000 population and below, including strictly rural areas. This general definition results from our experience in research on housing programs, including the frank admission of the HUD/USDA Task Force in October, 1969, that by and large HUD programs did not serve the residents of such areas.

2. Role of Private Market--The private market in housing includes a complex array of agencies and functions ranging from the real estate speculator through the land developer to suppliers, to contractors, realtors and money lenders of all varieties. We believe in facilitating the operations of the private market to enable it to serve as many people as it can serve with decent housing, e.g., FHA and FNMA, GNMA. But we insist that some of the confusion over housing need and housing subsidy be cleared away. The most "socialist" housing program, public housing, still relies on the private market for land acquisition, architects, materials, construction, and sometimes maintenance, garbage removal and other services. We consider such practices given. But when the government undertakes to meet housing needs by subsidy, this is an assertion by action that the private market cannot serve part of the people. At this point, we insist that equity to the taxpayer and the persons needing housing take total precedence over the private business community insofar as there is a conflict of interest. For example, it is vastly more expensive to subsidize interest payments to private lenders than it is for the government to lend tax revenues or borrow and lend to the housing agency or family. We insist that equity requires the government to act on behalf of the taxpayers, not the mortgage banker.

Basic Principles

1. Housing People Is Expensive--This nation, particularly the President and the Congress, should face up to the fact that there is no costless way to solve the housing problem. That nauseously repeated goal of the Housing Act of 1949, nearly 25 years later, smells to high heaven and affects socially sensitive people like a rusty blade cutting living flesh.

To talk, as Secretary Romney did last fall,1/ about "programs that will simultaneously meet the housing needs of all, especially the poor" while having a "low annual Federal budget impact, present and future," borders on charlatanism. If we are truly serious about providing decent housing to all at a reasonable share of income, we will either have to redistribute income in a major way 2/ or prepare to provide $7 to $10 billion a year in subsidies.3/ In a full-employment economy with a tax structure more attuned to ability to pay, this would not be an unbearable burden by any manner of means.4/ If our real intent is less than our rhetorical flourish, the price is still substantial. We would guess that merely providing adequate housing for all those in towns of less than 25,000 population who are currently living in units which lack plumbing, are severely overcrowded, or both, would require a capital investment in the neighborhood of $20 billion (up to half of which may be recoverable), plus continuing annual subsidies of $1 or $2 billion. This is far less than we are used to paying for the space program, and much of it could be recaptured by the tax reforms we and others have urged.

2. Citizens' Rights Are National--Where local or state governments fail to act, the Federal government must intervene, both to provide housing and to protect civil rights. It is no accident that the housing conditions of rural Blacks and other minority Americans are shockingly worse than those of whites: It is the direct result of centuries of discrimination. We call for an end to Federal laws and policies, including local government approvals of subsidized housing, which allow unresponsive state or local governments to interpose their powers to block residents of their areas from receiving the benefits of Federal programs. Need, not the initiative or acquiescence of local government, should be the primary consideration in the distribution of housing subsidies. The Federal government must have and use the power to override

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1/ In his speech to the Mortgage Bankers Association.

2/ Hardly an immediate prospect.

3/ See Cochran and Rucker, op. cit., pp. 539-40. Estimates of similar magnitude were arrived at by far more sophisticated methods by the Urban Institute. See Frank de Leeuw, "The Housing Allowance Approach," in the same compendium, pp. 541 ff.

4/ See Leon Keyserling, The Coming Crisis in Housing.

local government and assume control where discrimination on the basis of income or race can be demonstrated or where it can be demonstrated that local entities are not meeting housing needs. If a citizen can be taxes, policed, and drafted into the military, those responsibilities and duties must be balanced by equivalent rights to food and security and shelter.1/

3. Reliance on Tax Gimmicks Is Undesirable--Utilization of tax gimmicks, like limited dividend corporations, accelerated amortization and other devices is inefficient and wasteful, tends to be inequitable and misses the goal of meeting the need. The results are difficult to measure and the distribution of benefits haphazard and nearly impossible to police.

4. Federal Responsibility and Funding Should Be Joined With Maximum State and Local and Citizen Participation--We believe the basic initiative and funds for solving the housing problem must come from the Federal government, but states and local governments should be given maximum opportunity for participation, which is not the same as sabotage, road blocking, or the imposition of racially discriminatory patterns. Equally important is participation by consumers present and potential.

5. Counselling Housing Consumers--Counselling services should be tied as closely to existing housing or housing credit as possible. For example, FmHA has demonstrated (with regrettable exceptions) that the most workable and responsible means of providing credit and counselling is through a Federal official, located at the local level and responsible for both counselling and credit. FHA/HUD, on the contrary, has tended to counsel only the processors of consumers. The contrast is of the utmost significance.

Recommendations for Reordering Federal Housing Policy

We are convinced that no amount of "tinkering" with the present housing system or programs will be truly effective in providing adequate housing alternatives for the submerged third to half of the nation's poor. To accomplish that, major reforms, will have to be made in Federal housing policy--reforms which effectively challenge the prevailing mythology and

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1/ "A Legal Right To A Home...", Resolutions of the Second National Rural Housing Conference, November 30, 1972, page 5, No.8.

and misconceptions to which Federal housing activity has been tied. We have summarized below a few of the more fundamental changes which appear to be essential to a meaningful attack on the problem of indecent rural housing.

1. Comprehensive National Housing Program--We urge the establishment of a comprehensive national housing program which equitably serves the full range of housing needs and which does not leave the national purpose at the mercy of local will or capacity, or private initiative or interests. The present patchwork of Federal housing assistance programs reflects our failure to establish a comprehensive program, and results in the neglect of millions of American families, and the enrichment of a few private interests at an unnecessary high public cost. The primary purpose of Federal policy should be to provice adequate housing assistance for all who cannot obtain safe and decent housing through the private market at a reasonable portion of their income.

2. Department of Rural Affairs--We urge the creation of a Department of Rural Affairs, a new Federal department with responsibility for meeting rural needs, including housing, community facilities, food and nutrition, health, and other services. The new structure should be dominated neither by the agri-business interests of the Department of Agriculture nor by the metropolitan/real estate/banker/builder interests of the Department of Housing and Urban Development. We are opposed to the transfer of any rural housing responsibilities from the Farmers Home Administration to some new, super-HUD.1/

3. Emergency Rural Housing Administration--As an interim measure, we urge the creation of an Emergency Rural Housing Administration with the purpose of providing minimum adequate housing, clean water, and sanitary facilities to the worst-housed of the nation's rural areas, and to do so within a five-year period. The agency would be directed to ascertain the need for such housing in all areas with a population of 25,000 or less, to mobilize the resources of other agencies in developing a five-year plan for meeting those needs, and to act directly to insure that those people not being served by other agencies and programs are, in fact, served.2/

1/ Consider the public outcry that would greet a proposal to shift all existing HUD housing programs to the Department of Agriculture.

2/ See Statement of Clay Cochran, National Rural Housing Coalition before Senate Select Committee on Nutrition and Human Needs, October 7, 1970. A summary of the statement appears in Architectural Forum, March 1971.

4. Rural Housing Development Bank--We urge the establishment of a Rural Housing Development Bank as a central, public financing institution for rural housing and community facilities. The bank would be established by means of direct borrowing from the Treasury, with the funds to be used for the acquisition of land and construction of housing for all lower income people living in rural areas.

5. Federal Capital Budget--Much of the waste and nonsense in Federal credit agencies derives from the system of superstition surrounding the Federal budget. We need a "truth in accounting" law for the Federal government, a capital budget that requires and permits a distinction between public expenditures for wealth producing things like housing and the cost of body servants for the military "brass", currently costing $22 million a year, 19 percent of the cost of administering the total FmHA program.

6. Financing and Subsidy Arrangements--We urge the adoption of adequate finance and subsidy arrangements designed to bring decent housing within the means of everyone, with a choice of location and tenure. In order to satisfactorily meet the needs of lowest income families, adequate subsidies will be required to cover the following costs: (1) the cost of new or rebuilt housing; (2) the cost of adequate maintenance or rehabilitation of existing housing; (3) operating costs, including insurance and utilities; and (4) taxes.

We further urge the use of capital subsidies to provide genuine opportunities for homeownership. We recommend that this be done through enactment of a loan program which would allow that up to 50 percent of a loan be made as interest-free, nonamortized second trust, on which no payments would be made before retirement of an interest-bearing, amortized first trust.

7. Local Housing Delivery System--We urge the creation of an effective new housing delivery system responsive to local needs. We suggest that the successful rural electrification program provides a useful model. Local rural housing associations, chartered under state law but serving as delegates of a Federal program could serve to decentralize the basic administration of that program. Like the rural electric cooperatives, they should be controlled by those they serve--who, after all, have the most direct interest in effective implementation of the housing program. These local agencies

should also be required to enter into area responsibility agreements, so as to assure geographic and racial equity of service and to assure satisfaction of the national concern in meeting the housing needs of "every American family."

The rural electrification program was established to fill a gap left by the private sector--to offset an obvious deficiency in the market mechanism. It did so by utilizing the initiative of those must directly affected, the rural people who were in that gap. The Federal government provided them with the necessary resources, in the form of credit and technical supervision, and it required as a condition of those resources that the cooperatives operate as responsibly as if they were true public bodies. Rural housing need reflects an obvious deficiency in the market mechanism. The logic of again tapping the initiative of those most directly affected seems to us compelling. The wisdom of again combining substantial Federal resources with the requirement to act responsibly seems to us appealing. It also offers the possibility of a housing assistance mechanism which can be fully responsive to local needs and desires without abandoning the national concern for decent housing to local will and capability.

RECOMMENDATIONS FOR IMPROVING RURAL HOUSING PROGRAMS

In the absence of fundamental alterations in our national housing policy, changes in existing housing programs need to be made which will expand the delivery of decent housing to rural people. The following recommendations point to immediate steps, both administrative and legislative, that can and should be taken to expand and improve assistance available under the present system. They are by no means a solution to the rural housing crisis, and should not deter us from efforts to fundamentally reorder national housing policy, but their cumulative impact would improve opportunities for a significantly greater number of lower income rural people to be served.

1. End Moratorium: The freeze which has been imposed on existing housing and community facilities programs administered by both the Farmers Home Administration and HUD should be lifted immediately. We also urge the release of all housing funds impounded by the Administration. The housing moratorium declared earlier this year should be immediately reversed, since it seriously discriminates against both low income and rural people.

2. National Housing Goals: We recommend that the national housing goal for the decade of the 1970's be at least 30 million additional adequate units, and that at least 10 million of those units be for rural and small town communities. At least 13 million units built during the decade will require Federal assistance, with a minimum of 5 million assisted units in non-metropolitan areas. Additionally, in meeting these goals, trailers should not be substituted for adequate homes suitable to the needs of families.

3. Rural Housing Goals: A legislative goal of at least 350,000 housing units per year should be established for the Farmers Home Administration. At the present time, FmHA makes housing loans for approximately 115,000 rural households annually. Congress should establish a $6 billion level for FmHA insured housing loans for the next fiscal year.

4. Rural Housing Appropriations: We urge full funding for all housing programs which might serve low income people which are currently authorized, and urge upon the President the importance of spending the funds available for community facilities and housing.

5. Increasing FmHA Personnel: Present FmHA staff resources are clearly inadequate to cope with the existing housing need in rural areas. Over the past decade, Farmers Home's program responsibilities have been increased manifold, but the agency has been deprived of adequate personnel with which to administer its housing programs. Furthermore, the existing staff is not deployed on a basis consistent with rural housing need. We recommend, therefore, that Farmers Home's administrative funds be increased from $113 million in the present fiscal year, to at least $183 million initially requested by the agency, and that FmHA be directed to allocate the new staff resources on a proportional basis corresponding with rural housing need.

6. Expanding FmHA Service Area: The Farmers Home Administration is currently restricted to operating in towns and communities with a population of 10,000 or less. It is common knowledge that HUD programs are geared to the presumed needs of metropolitan areas, and that the agency's record of housing delivery in towns below 25,000 has been poor. Consequently, we recommend appropriate changes in Title V of the Housing Act of 1949, extending Farmers Home's authority to make loans and grants in towns of up to 25,000 population.

7. HUD and Rural Housing: In view of the recognized breakdown in the delivery system of certain HUD programs in rural areas, ways should be sought to expand HUD's housing assistance efforts in non-metropolitan communities. At a minimum, an Assistant Secretary should be appointed to oversee the agency's rural housing activities, and specific goals for each HUD-assisted program should be established annually to insure a more equitable distribution of services.

8. Expand Subsidy Mechanisms: Farmers Home loan programs under Sections 502, 504, and 515 are limited in their subsidy provisions to reducing the effective interest rate to as low as one percent. Without deeper subsidy provisions, the capacity of these programs to reach low income families is extremely limited. We recommend appropriate changes in FmHA's authority under Title V, broadening and deepening the subsidy mechanisms to include provision for the deferred payment of up to 50 percent of the principal for Section 502 and 515 loans, and up to 90 percent for loans under Section 504. The deferred principal would be non-interest bearing and non-amortizable for a certain period of time. In addition, rent supplement assistance should be made available for all rental, farm labor, and cooperative housing units financed by FmHA, to cover part or all of the operating and maintenance costs.

9. Community Facilities: In view of the absence of adequate community facilities in many small towns and rural areas, FmHA's authorization for annual appropriations for development and planning grants for rural water and sewer systems should be raised from $115 million to at least $230 million. Additionally, all funds appropriated for these purposes should be released by the Administration and utilized by Farmers Home. It has been estimated recently that over 55,000 rural communities lack minimally acceptable water and/or sewage facilities, and their absence serves as a major block to the provision of decent housing for rural poor people.

10. Public Housing: The public housing program, as the only major Federal housing program with sufficient subsidies to reach the lowest income families, should be provided with funds of a magnitude commensurate with the real requirements of rural people. We further urge the Administration to release all public housing funds currently appropriated. Our estimates call for the annual production of at least 150,000 units of public housing in rural areas alone, assuming that FmHA receives adequate subsidies to meet an equivalent amount of the low income housing need. Additionally, all public housing legislation should be amended to permit nonprofit housing development organizatins or cooperatives to borrow funds and receive subsidies under the same terms as are available to public housing authorities. Such an alternative to existing public housing arrangements is considered necessary in view of the acknowledged failure of many rural communities to assume responsibility for the development and expansion of the public housing program.

11. Home Repair Program: Currently, Farmers Home has authority under Section 504 to make loans and grants up to $3,500, for the purpose of making modest home repairs. Present legislative language limits the interest rate on the loan portion of the program to one percent, and administratively FmHA has limited the loan repayment period to 10 years. Except for a brief period during the 1960's, FmHA has been prohibited by the Appropriations Committee from expending authorized personnel funds to administer the grant portion of the Section 504 program. We suggest the following changes: (1) that Section 504 be amended to provide for a maximum grant and loan combination of at least $4,000; (2) that the loan repayment period be extended up to 20 years, and (3) that the Appropriations Committee eliminate the prohibition on implementing the grant program.

12. Rural Rental and Cooperative Housing: We recommend that the Rent Supplement program be extended to programs which are financed directly by FmHA, and that sufficient rent supplement funds be made available in view of the existing need. Additionally, there is a need for a thorough examination of Farmers Home's administrative policies and practices with regard to the rental program.

For example, we find that Farmers Home is currently requiring rental housing sponsors to put up 2% of the project funds in advance as start up money. The agency has ruled that these funds cannot be provided for out of the mortgage. For all practical purposes, this prohibition will eliminate community based nonprofit groups from rental sponsorship. Administrative

or, if necessary, legislative relief is required to insure that HDCs can effectively sponsor or develop such projects. Additionally, as documented in a recent study by the Rural Housing Alliance, there appears to be serious variations between the way FmHA administers the rental program in different states. In Wisconsin, for example, most of the rental housing funds go to profit making sponsors, and the interest subsidy provisions have barely been utilized. In Missouri, on the other hand, nonprofit sponsors have been able to utilize the program and reach considerably lower income families through the much more liberal use of interest credits. Individual state offices of Farmers Home should be forced to administer the rental and other programs in a consistent and uniform manner, making full use of subsidies under the law. 1/

(continued on next page)

1/ See RHA publication, Three Studies in Rural Rental Housing.

13. Permanent Funding for HDCs: At the present time, HUD is authorized under Section 106 (a) of the 1968 Housing Act to provide grants to cover the operating costs of nonprofit housing development corporations. However, only $1 million a year has been made available to the agency for those purposes, and HUD has perverted the act by arbitrarily limiting grants to groups engaged in self-help housing activities or to those providing technical assistance and support to local, nonprofit sponsors. Except for grants to self-help sponsoring organizations, Farmers Home does not have grant funds with which to support HDCs. We recommend the following changes: (1) that at least $10 million to be made available to HUD to carry out the Section 106 (a) program, to be increased as fundable requests are submitted; (2) that HUD be instructed to make grant funds available to both organizations working directly with low income families and those providing technical assistance to others; and (3) that Farmers Home be authorized to make grants to public and private nonprofit organizations providing housing assistance to low income families under any Federal state, or local housing program in rural areas, comparable to Section 106 (a) authority.

14. Seed Loan Funds: Farmers Home should be authorized to make interest-free loans to nonprofit organizations for necessary expenses prior to construction, with the funds to be repaid from permanent project financing. This would be comparable to the existing HUD Section 106(b) program. At present, Farmers Home's site development program permits loans at 7 1/4 percent interest to nonprofit sponsors, but limited to the acquisition and development of land.

15. FmHA County Committee: Currently, three-man County Committees, usually consisting of farmers, are employed by a majority of FmHA County Supervisors to review loan applications and determine applicant eligibility. There is ample evidence that the use of the committee system is an unnecessary element in the housing process, and is actually a constraint. We know, for example, that it permits farmers to block loans to farm workers; it causes delay; and it enables some County Supervisors to play a sleight of hand game when reviewing lower income applicants.

We recommend an appropriate amendment to Title V, restricting the use of county committees to determining the eligibility and amount of loans of applicants for farm ownership loans or other loans dealing with farming operations.1/

1/ The Congress has already made the use of Credit Committees on housing discretionary with the Secretary of U.s.D.A. who has now delegated the discretion to State FmHA directors.

16. National Homestead Exemption: We urge Federal government action to secure tax exemption for all homes with a modest market value. Locally imposed property taxes on modest homes are regressive and should be reduced or eliminated. Such taxes are frequently a burden to low income families and a barrier to home ownership.

17. Land Title Insurance: Frequently, rural families are unable to obtain title insurance on land they own or are proposing to acquire because of remote outstanding claims or incumberances on title. Since Farmers Home currently requires that the title of all land to be used as collateral for FmHA loans be insured by a private title insurance company, many rural residents are effectively excluded from receiving Federal housing assistance. This is a particular problem in areas where land is hard to buy because of racial prejudice. Sometimes, the only land available is in the hands of minority families with shaky titles. As one approach to the problem, we recommend that the Secretary of Agriculture be authorized to insure titles to land using funds from the Rural Housing Insurance fund.

18. Discrimination Against Farm Workers: We insist that Farmers Home immediately abandon all attempts to establish quotas on the number of farm workers served by self-help organizations utilizing Section 523 grant funds. Farmers Home has attempted to restrict the number of farm workers served by self-help sponsors using 523 technical assistance funds.

19. Appeal Procedures: We note that existing Farmers Home regulations have been improved recently, but we urge inclusion of language under Title V, requiring the Secretary of Agriculture to establish a system of appeals whereby an applicant denied assistance would be afforded a due process hearing.

20. Escrow Accounts: We find that under existing FmHA authorities, the agency cannot collect payments for taxes and insurance along with monthly mortgage payments from borrowers. This works a particularly severe hardship on lower income families who are forced to make annual or semi-annual payments directly to taxing authorities, and discriminates against rural people since borrowers under FHA administered programs are able to consolidate monthly payments. We recommend changes in Title V to require the Secretary of Agriculture to establish a system of escrow accounts whereby borrowers may make periodic payments for the purposes of taxes, insurance, and other necessary expenses.

21. Loan Defaults: We find that Farmers Home's present loan servicing procedures and practices do not include adequate provisions for informing borrowers when loan payments are overdue. As a result, many families are not aware of the seriousness of

of the situation until they are hopelessly behind in their payments. We advocate both administrative legislative remedies which will require Farmers Home to notify borrowers in writing when their loan payments are overdue. This service can readily be combined with the record keeping required for the escrowing of accounts described above.

22. Eligibility Determination: We find that in determining eligibility for loans under Section 502, Farmers Home frequently discriminates as to the source of a family's income, with welfare income often considered unreliable for purposes of loan repayment. Additionally, we find that a family's repayment ability is generally determined only after making allowances for other living expenses. We recommend changes in Section 502 regulations to insure that an applicant's eligibility be determined solely on the basis of income derived from any legal source, and that FmHA be instructed to eliminate the practice of viewing of a low income person's housing need as a residum.

23. Rural Housing Research: FmHA should be provided with funds for research involving problems which hamper or restrict housing development and delivery in rural areas. An example is the lack of small scale waste disposal facilities. Research needs to be undertaken in this and other areas, and FmHA should be authorized to contract with public and private organizations for such purposes.

24. Standardizing FmHA Procedures: We believe that Farmers Home should standardize its regulations and procedures. Operating procedures frequently vary from county to county and from state to state, making it difficult for housing development organizations to work effectively with FmHA.

* * * * * * *

Colorado Housing, Inc.

1540 Vine St.
Denver, Colo. 80206

(303) 321-7260

STATEMENT OF DAVID W. HERLINGER, EXECUTIVE DIRECTOR
COLORADO HOUSING, INC.

SENATE HOUSING SUBCOMMITTEE

July 17, 1973

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to comment on proposed housing legislation, and I am particularly interested in the rural aspects of any proposed legislation.

Colorado Housing, Inc. is a statewide rural Housing Development Corporation funded by OEO and has been in existence for nearly two years. We have a staff of eight people, and a board of fifteen members. We provide technical assistance, including seed money, to local elected officials, local housing authorities, potential nonprofit sponsors, builders and others.

During this two-year period we have aided in the creation of some 37 Local Housing Authorities, construction or funding of 1400 units of housing for low-income people. Despite this, the rural areas of Colorado today require an additional 30,000 units of housing for low-income elderly and families, according to a recent

study completed by the Colorado Division of Housing. Rural Colorado with some 21% of the state's population has 37.5% of the state's substandard housing. We have used Department of Housing and Urban Development, Federal Housing Administration and Farmers Home Administration programs. Presently in Colorado, there are 55 Local Housing Authorities, with 44 of them being rural in nature. Of these 44, 26 are not funded for several reasons; among these are of course, the President's housing moratorium and HUD's orientation to urban housing problems.

Prior to two years ago, HUD's funding of Local Housing Authorities (public housing) in Colorado consisted of Denver and Pueblo for a total of approximately 4000 units, while six smaller communities received only 250 units. Funding was mainly a matter of larger communities being able to hire staff who could deal with HUD and fill out the necessary papers. Colorado Housing, Inc. has attempted to fill the gap by providing skilled staff to local communities at no charge to them.

In addition, HUD has resisted funding of LHAs in communities with a proven need of less than 100 units. We have, to some extent, responded to this problem by aiding in the formation of area wide management cooperative agreements as our state enabling legislation does not allow area-wide local housing authorities. The only housing programs directed to rural areas and small towns have emanated from the Farmers Home Administration and of these, few have reached low-income families. In our state, as an example,

the real estate property taxes on a home assessed at $16,000 are $500 per year. Even with a loan of 1%, poor families are unable to purchase a home.

Rural rental programs through Farmers Home have not carried with them rent supplement payments and those units that have been developed can be afforded only by moderate income families, those with incomes over $6500 per year.

Because of HUD's orientation to urban areas, the Federal Housing Administration's orientation to urban and suburban areas and due to the inadequate programs administered by the Farmers Home Administration, we feel it is necessary to create a separate, independent Rural Housing Administration. This administration should include at least the following:

1. A statewide or regional delivery system which is public in nature and thus answerable to the electorate and elected officials. This type of system, based on our experience, can provide immeasurable aid to local groups of citizens and elected officials, given adequate ongoing funding for capable staff and program development.
2. Comprehensive community development powers which would include adequate grant and low interest loan funds for sewer, water, planning, open space, as well as housing.
3. The ability to provide deeper and more flexible subsidies, including grants and more creative ways in which to finance housing. Existing Federal

housing programs respond to an individual's ability to pay, not his need for housing. Most "housing poor" families cannot qualify for federally subsidized housing under the Federal Housing Administration or the Farmers Home Administration programs. As an example of expanded opportunities via grants, the State of Colorado has provided the Colorado Division of Housing, with which we work very closely, $250,000 for grants to be used in Farm Labor Housing programs. Using Farmers Home Administration programs and private funds, there are now nearly 800 units of Farm Labor Housing being lived in or under construction. In most instances a grant from the state has made these programs economically feasible. The grants have had a leveraging effect of 15-1. $250,000 has generated nearly $4,000,000 in construction and rehabilitation.

4. A Rural Housing Administration should have the authority to fund Local Housing Authorities and other broad-based, consumer-oriented housing producers.
5. Rent supplement payments should be made available to rural communities through nonprofit organizations and LHAs; presently, these payments are available only through the Federal Housing Administration which is almost totally urban and suburban oriented.

6. Have the ability to contract for services to proven, capable organizations already in existence in given states and regions.

The present housing moratorium, which will apparently last for a total of 18 months is drastically effecting both the rural and urban areas of Colorado. Since no subsidized housing can be produced, small towns and rural areas have great difficulty in attracting new industries, and because there are no available jobs, the poor and unskilled migrate to the urban centers, compounding not just the housing problem but the ability of the schools, public services, health and welfare institutions to function effectively, as well. Today, in Denver, Pueblo and Colorado Springs, there are literally thousands of families who would like to move to the Arkansas Valley, San Luis Valley and other rural areas but who are unable to do so because of non-existent or inadequate housing resources. The problem is circular in nature and must be dealt with in a comprehensive manner.

The decline of rural America and the dilemma of urban decay are closely related. The manner in which institutions have been developed and funded by the federal government has forced rural residents into the midst of a strange and decaying urban environment. The future magnitude of urban problems, including housing, is dependent to a great extent upon the responsiveness of federal policy in rural America.

I urge that the Committee act positively upon legislation which will create permanent institutional frameworks to deliver housing and related services for the rural poor; to provide adequate funds for public housing; deeper and more flexible subsidies, including grants, for new construction and rehabilitation in both rentals and homeownership.

Only in this way, will we begin to balance the historic inequities which have deprived rural America, and more particularly, the rural poor, of their rightful share of the American dream.

REMARKS OF JOHN W. BIASUCCI

EXECUTIVE VICE PRESIDENT OF

THE WEST VIRGINIA HOUSING DEVELOPMENT FUND

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

OF THE

SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE

July 17, 1973

Mr. Chairman, Members of the Committee, I am John Biasucci, Executive Vice President of the West Virginia Housing Development Fund.

Let me first say I am pleased to have a few minutes to talk with you about rural housing problems -- and to express some of the deep concerns that we in West Virginia have about these problems.

I hope to talk about four things this morning:

-- the obstacles to meeting rural housing needs

-- the applicability of existing federal housing programs to rural areas

-- some specific comments on last year's Omnibus Housing Bill, Senate Bill 3248, and

-- some more general observations about rural housing and community development difficulties.

BACKGROUND -- WEST VIRGINIA HOUSING DEVELOPMENT FUND

First, let me put the West Virginia Housing Development Fund, the organization I represent, into context so that you can better understand the background from which my comments have come, and better assess my biases.

The Housing Development Fund is the state housing finance agency for West Virginia. It was created by statute in 1968, and presently has approximately $26 million of housing completed or under construction, with

about $20 million more almost ready for construction or in active pre-construction processing.

These are not large numbers by urban standards, perhaps, but they are very large numbers by the standards of our state. Almost all of this housing is 236 subsidized rental housing, all FHA-insured.

We have previously submitted to the staff of the Subcommittee a paper that we prepared, entitled "Housing in the Non-Urban Setting: An Initial Report on Problems and Programs." Much of what I have to say this morning is said better and with more detail in that paper.

OBSTACLES TO MEETING RURAL HOUSING NEEDS

I don't plan to discuss in depth rural housing needs today. We all know the severity of these needs and many others have laid bare to all of you, I am sure, the ghastly statistics ... and the personal misery that they quantify but can't begin to convey.

Rather, I want to start with a discussion of the obstacles to meeting rural housing needs, as we have come to know them in our work in West Virginia.

West Virginia, by the way, is almost the most rural state in the nation. By some standards it is the most rural state -- with over 60% of its citizens living outside of urban areas.

The barriers to development of new housing in non-urban areas

are many. A principal one, of course, is the high cost of building. Higher costs are understandable, since building at lower volume, necessary in these areas, costs more. High transportation costs drive up materials costs. And there is an overwhelming scarcity of the skilled workers necessary for housing construction. In some areas there is more than a scarcity, there are none.

The high cost of land for housing is another major barrier. This may surprise some, perhaps, who think of rural land as cheap. But if you add the cost of land improvements to the raw cost of acreage, the total cost of buildable land becomes extreme, at least in our state. Heavy improvement costs are certainly the rule for us -- long access roads; cuts, fills and retaining walls; extensive outlays for sewer and water; etc. Further, the cost of raw land itself is critically dependent on the infrastructure, the sewer, water and other public facilities -- or lack thereof -- needed to support housing. Where you can find buildable land in rural areas that has such infrastructure, you pay dearly.

But beyond the lack of sewer, water and similar infrastructure, rural areas critically lack what are often referred to as "residential services" -- the schools, stores, public transportation, health care facilities -- that are necessary to support housing. Lack of these residential services does more than drive up land costs in rural areas lucky enough to have them. It makes impossible the provision of a suitable living environment elsewhere, even if you can provide a dwelling structure.

This lack of residential services is, in turn, grounded on a more fundamental lack: the lack of governmental institutions capable of

providing these facilities and services. The typical rural governing body lacks the staff and resources to build or supply these facilities or services in the first place, or to maintain them thereafter. These bodies may even lack the ability to organize adequately to lobby and agitate for a fair share of the grants and other assistance necessary to make these facilities and services possible.

The non-urban area typically lacks as well what can be called a "building industry." At best it may have a few small homebuilders, mostly around the more urbanized areas; in some counties there are even none of these. And the homebuilders themselves are caught in the cost spiral of labor and materials. They are unable to do the development work -- the market studies, financial analyses, projections and "packaging" -- needed for anything but the simplest of projects. And, most are unfamiliar, or suspicious, of governmental programs, and totally unable, financially, to withstand the delays connected with government processing.

There is no housing management industry whatsoever in many rural areas, to carry out the function of rental management that we are all at last realizing is critical to the success of rental housing.

Rural areas lack as well an adequate credit industry, vital to a healthy home construction industry. For example, savings and loan associations are found in only 22 of West Virginia's 55 counties. Those banks that are in rural areas rarely lend for housing on terms other than the most conservative.

Surprisingly enough, many of these rural banks, we have found, are not capital short. On the contrary, many of them have surplus capital -- which they invest in government securities or happily export, often out of state, to share in the more lucrative, and perhaps safer, investment opportunities available in urban areas.

In addition to the foregoing types of barriers to housing development, and as partial explanation of some of them, we can look to demographic factors. Low population density, for example, causes much of the trouble. The housing market is spread very thin. There are few population clusters that can support rental housing of any kind. Those that can, can support only the smallest of developments, with the reverse economies of scale that that implies.

In addition to a sparse population -- and in some of our counties we have fewer than ten persons per square mile -- the rural population is often a declining one. In our state, population declined 13% overall between 1950 and 1970. A declining population does little to encourage businessmen and investors to commit more to these areas. This is especially true when the decline in population reflects mostly the loss of working age groups. For it is mainly the old and the young that are left behind -- while West Virginia was losing 13% of its population between 1950 and 1970, the number of persons over 65 within the state <u>increased</u> 40%. Those left behind are the ones least capable of overcoming the obstacles to rural housing problems, of bolstering the needed industries or paying the taxes needed to support the necessary community services.

The poverty in rural areas, of course, is the most fundamental cause of all. And the extent of poverty is extreme. Our per capita annual income in 1971, for example, was $3228 - 78% of the national average. Even this figure is misleading as a measure for the rural areas of our state, since it is a statewide statistic, and includes urban, wealthier areas. Thus, by 1970 Census figures, 29 of our more rural counties had per capita income of less than $2000 per year. And in one of our southern coal counties, 45% of all households earned less than $5000 per year.

If we turn to the existing housing stock in these areas, we are not more encouraged. But it is precisely existing housing stock that we must turn to when we talk of using rehabilitation programs, leased public housing, and housing allowances. I won't go into the gruesome statistics of how much substandard housing is in rural areas. It is well known.

Almost as well known, I would hope, is that rural areas have received less than their fair share of public housing. In West Virginia, for instance, approximately 188,000 households qualify for public housing, by income standards, yet only 8,000 public housing units exist in the state. That is one for every 24 substandard units, versus a national average of one to eight. Even this ratio is misleadingly favorable because it includes the state's urban areas, which have a more favorable ratio of public housing units to substandard units.

Lastly, in this catalogue of obstacles to rural housing

solutions, we must consider some of the cultural realities. Some might call this cultural heritage, rather than barriers to meeting housing needs. And with reason. For I think it understandable that so many rural West Virginians are unwilling to give up their independence, to leave their isolated hollows or mountain homes, to cluster into a garden apartment or townhouse complex -- much less a highrise -- regardless of how much more safe and s itary it is supposed to be.

Another cultural fact is that, traditionally, rural residents, at least in our state, have paid far less than 25% of their meager incomes for shelter. This is explainable on grounds other than mere preference. For example, transportation ... the need for a car or pickup truck to get to the doctor, or church or stores ... or the mine ... has long had to claim a larger share of income than is true for many of the urban poor.

APPLICABILITY OF EXISTING FEDERAL HOUSING PROGRAMS TO NON-URBAN AREAS

I think it relevant to the Subcommittee to examine how existing federal housing programs have fared in meeting rural housing obstacles.

The paper we have submitted, which I referred to earlier, goes into considerable detail about our experience at the West Virginia Housing Development Fund in using these programs, particularly the Section 236 program.

Section 236 Program. Our agency has found the Section 236 program useful, and, I believe we have performed a valuable role in furthering

the use of the program in our state.

The drawback is -- and it is a most crucial one -- the program has been workable only in the most urban areas of the state. It has done nothing for the non-urban areas of this non-urban state. The reasons are many.

It is virtually impossible, under the 236 program, to develop less than 50 units feasibly. Yet a 50-unit apartment development is huge for many of our small towns and villages, and out of the question, of course, in open countryside.

The rent levels that result under the program, even though heavily subsidized, are too high for the rural market. Even with the subsidy, 236 generates some of the most expensive housing available. In one of our projects, for example, basic rentals that average $125 per month are higher than rents charged for over 96% of the existing rentals in the entire community.

The higher rents result, in part, from the requirement of paying prevailing wages. This requirement in fact, by itself, just about excludes the use of 236 in rural areas, especially when combined with the market rent comparability requirement. "Prevailing wages" inevitably turn out not to be what truly prevail in the community -- they in fact are generally far higher (25% to 50% higher) than typical rates paid for residential tradesmen. Small wonder that the projected market rents for proposed 236 housing built at such higher rates compare unfavorably with the comparable market rents of conventional housing built at much lower rates.

The strict application of urban oriented minimum property standards to rural areas is another major criticism. I am not talking about the health and safety features of these standards, though even these far exceed local practice. But other features, such as minimum room sizes, and mandated use of sidewalks, curbing and closed pipe storm sewers, put 236 housing in a class all by itself in the rural community -- a class that is too expensive to be feasible, even with the subsidy, in these areas. And there are other adverse results. The requirement of using grade mark lumber, for example, means that, in counties such as we have in our southern coal fields where there are many independent sawmills producing good quality, but un-grademarked lumber, independent mills are excluded from participating in supplying this housing except by selling to large dealers who will do the grade marking, with appropriate raise in prices.

My staff has estimated that the use of urban oriented minimum property standards increases the costs of land development up to 40%, and the costs of structures up to 10%, of what would be quite satisfactory housing compared to conventional units currently being built in non-urban areas.

I might remark parenthetically that the Farmers Home Administration, for its programs, seems to apply minimum property standards in a more flexible way to make them work better in the rural context.

Processing delays in the 236 program are well known, and I won't dwell on them. To some extent they might be avoided, however, if the processing system were modified so that all projects, regardless of merit,

are not treated basically the same, to allow for more expeditious treatment to projects of higher quality, or which satisfy more urgent needs.

More fundamentally, however, we object to the processing system because it is purely reactive, purely dependent on what happens to walk into the FHA door. Projects are built where developers find it convenient to build them, not where they are most needed. There is a drastic need for a way of setting priorities in the application of these vital, expensive federal subsidies. Our major accomplishment at the State Housing Fund, I believe, has been to start supplementing FHA in this regard by improving the quality of 236 projects that are proposed for the State, and causing them to be proposed in areas with greater needs.

Section 235 Program. Similar comments could be made about the Section 235 program. The processing delays, especially likely where there is only one insuring office for the entire state, as in West Virginia, so that builders and banks have a severe logistical problem in using the program, and inappropriate minimum property standards, adversely affect the use of 235 in West Virginia just as much or more than they affect the use of 236. The net result is that very little 235 has ever been built within our State.

Public Housing. The public housing program should be the program most applicable for rural areas, because only public housing has deep enough subsidies to reach the poor that are so prevalent in these areas.

But the program has not been adequately used, as I have mentioned earlier, and as many have documented. The reasons are many, but include such major difficulties as the lack of an adequate public and private delivery system, reverse economies of scale, the problem of ownership and management of small, scattered projects, and the intrinsic resistance in these areas to rental housing.

. Farmers Home Programs. Significantly, our experience has been limited mainly to the HUD-insured, subsidized programs because the Farmers Home programs allow little or no involvement by a state agency such as ours. Farmers Home is the direct lender, the underwriter, the processor, the construction inspector, and the servicer. There is no role for us. The only way we could involve ourselves would be to try to muscle in to the system as a "packager" or technical advisor or consultant -- something we have not been encouraged to do, nor had the grant funds necessary to support ourselves in doing.

Since our experience with Farmers Home programs has been indirect, I won't dwell on them. Nevertheless, it's clear that many of them have been less than successful in meeting the truly rural housing needs of our state. For example, in 1972, only 93 home repair loans -- the 504 program -- were made in the entire state. Only 36 of these were made in the 30 most rural counties of the state. Also in 1972, of the less than 2200 Section 502 loans made in the state, only 161 were made in the ten most rural counties. In some of our southern coal producing counties, where housing is desperately needed, no 502 loans were made at all. And only three Section 515 rental projects have ever been done in the state.

SPECIFIC RECOMMENDATIONS

Having described the extreme obstacles to meeting rural housing needs, and the less than successful federal programs that have been applied to them, the task in our view is to design a completely new set of federal housing programs that will work better. Let me turn, then, to a few specific comments on last year's Omnibus Housing Bill (S. 3248), to see what it did from the viewpoint of a non-urban state.

Chapter V, entitled "Rural Housing," does little. It mainly makes a few modifications of the existing Farmers Home programs.

Chapter V of last year's House Bill (H.R. 16704) does a little better. It incorporates most of the items from the Senate Bill, plus it includes a few useful provisions, such as

-- enlarging the FmHA rehabilitation, loan and grant program
-- encouraging research and study of rural needs
-- broadening the geographic areas for which FmHA programs are available
-- authorizing a new FmHA program of grants and contracts for private and non-private organizations for technical and supervisory assistance to aid low income rural families.

Beyond Chapter V of the Bill, however, changes should be made in the other Chapters to reflect greater sensitivity to the particular obstacles that exist for rural housing.

Here we can draw upon the experience we have had in West Virginia

with the shortcomings of the existing federal programs to the extent they have been carried forward in the Bill. For example, at least in the case of rural areas, we recommend increasing Rent Supplement above 20%, modifying the applicable minimum property standards to be more in keeping with local standards, and narrowing the application of the prevailing wage requirement.

Within the next several weeks, I hope to submit to the Subcommittee a listing of the specific recommendations of this type, based on what we believe to be proven as drawbacks in the predecessor programs, from our rural bias.

More difficult to catalogue are specific suggestions not based on criticisms of the old programs, but on new ideas to overcome rural obstacles. We have a few preliminary ideas, such as:

- programs to encourage consolidation of housing authorities in rural areas
- techniques to aid in aggregating rural rental markets
- methods to combine HUD processing of batches of small, scattered projects
- extra allowances for the higher costs of managing small, scattered rental projects in rural areas, perhaps a special operating subsidy
- funds to help write down the high cost of land, including land development, in non-urban areas.

We could go on like this for a considerable time, and I hope to be able to do so through detailed suggestions submitted later to the Subcommittee or to the Subcommittee staff.

GENERAL OBSERVATIONS

I would like to finish, however, with some more general observations.

For whenever I leave the topic of specific recommendations on housing programs for non-urban areas, I must confess to some deep dissatisfaction with what I wind up saying -- to a strong feeling that the specifics don't begin to sketch out a solution to rural housing needs that is likely to be successful. Something much more ambitious, more drastic, seems essential.

What that drastic remedy is, I don't know, I regret to say. All I can think through to are a few principles that appear to me to be sound -- and that must, in my opinion, shape any truly effective solution, if there is one, to rural housing problems. I don't pretend that these principles are brilliant insights, or original in any way. I can only say that we, in our work in the hills of West Virginia, have come to feel that they are true.

1. The problems of housing in the rural setting cannot be solved in isolation. They must be handled together with problems of community development.

   You cannot build housing successfully without regard to water, sewer, schools ... the whole envelope of essentials and amenities that support and surround the dwelling structure and which make it livable. Even more fundamental, housing where there are no jobs to support

the inhabitants is a waste. And most jobs, other than agricultural ones, are in or near communities.

2. The private institutions necessary to deliver housing and community development are largely missing in rural areas.

The building and financing industries needed for housing and community development are either nonexistent or inadequate in rural areas, and their counterparts in urban areas are either unable or unwilling to serve the rural needs.

3. The public institutions necessary for housing delivery and community development in non-urban areas are inadequate to the task.

The complexity and cost of providing the infrastructure and services for modern living are too much for the local governmental structure and resources of many rural places. Building, financing and maintaining a water and sewer system to meet today's standards, or a modern educational or public housing complex, all demand far more money and skill than are usually available.

4. A political solution is needed to solve the immense problem of deciding where public resources and investment should be placed.

Unless everything requested by everybody everywhere is to be built ... every school, dam, hospital, civic center, industrial park ... somebody must decide who gets and who doesn't. Giving everyone just a little will not work at all, especially in the rural areas, because many won't receive enough to accomplish anything. Yet deciding

who gets and who doesn't, or devising a mechanism to do the deciding, is a political problem of the first magnitude.

5. Clear guides for development and public investment are needed for these decision-makers.

This is no more, or no less, than a national growth, or no-growth, policy.

6. The programs, both for housing and for community development, that are ultimately designed must be matched to, and capable of carrying out, these growth or no-growth policies.

For example, a governmental subsidy program for new construction (like the standard public housing program), which is designed to build structures that will last half a century, seems appropriate perhaps for a growth area, where investment of public resources will serve needs for years to come, but seems quite inappropriate for a declining town that will all but disappear in a decade or two. For that town, something other than new construction may be a far wiser investment of public funds. Yet we have had far too few programs that are not directed to new construction.

7. This leads in the direction of the obvious need for far better planning of governmental investment and development.

I share the skepticism of many that planning so often results in nothing but plans. Nevertheless, more than just "production" is needed. We have produced too much of what we don't want, and not

enough of what we need. The task is to combine the two effectively.

8. Lastly, the programs and the planning must also be sensitive to the unique problems of the non-urban setting.

They must be sensitive to the obstacles that stand in the way of meeting rural housing needs, which I described earlier. Indeed, they must be aware of the realities of rural America.

Thank you for the opportunity of expressing these thoughts to you today.

# # #

HOUSING IN THE NON-URBAN SETTING:
AN INITIAL REPORT ON PROBLEMS AND PROGRAMS

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I. INTRODUCTION TO THE DILEMMA OF HOUSING IN THE NON-URBAN SETTING

Perhaps no other aspect of the social and economic realities of post World War II America has received as much attention as has housing. Indeed, inquiry leads one to a truly amazing array of material on housing, and housing-related matters, written by economists, policy-makers, and administrators. Equally amazing, however, relatively little of this outpouring has been devoted to the non-urban, or rural, housing situation, in spite of the fact that, in many ways, housing problems are decidedly more severe in rural areas than in urban areas.

Although there was little doubt about it beforehand, the 1970 Census confirms that we are an urban nation: over 70% of the American people live in urban areas. Conversely, one-half of all poor people live in rural areas, and nearly two-thirds of all people inhabiting sub-standard housing live in rural areas.

That being the case, it is perhaps only a slight oversimplification to suggest that resources and attention have gone to where the people are, rather than to where the problems are. That this imbalance should exist is understandable: the urban disturbances of the 1960s riveted attention on the cities, and gave rise to two landmark presidential commissions (The President's Committee on Urban Housing, or Kaiser Committee; and The National Commission on Urban Problems, or Douglas Commission),

both of which made greater attention to urban housing conditions a focal point of their recommendations.

If the American political system functions as a melange of interest groups competing for an ever greater share of attention and limited resources, the rural poor suffer a distinct and perhaps insurmountable disadvantage: their dispersal and remoteness make it very difficult for them to lobby in an effective way. That being the case, and resources apparently becoming ever more scarce, perhaps the rural poor are doomed to permanent third-class citizenship -- to institutionalized neglect, as it were.

Dispersal, remoteness, ever more scarce resources, third-class citizenship, institutionalized neglect. Such are the essence of the rural poor. Such explain why successful efforts to effect substantive improvements in their lot form such a short list -- why failure is so largely foreordained, why even the smallest improvements are so costly and difficult, and why there is such encouragement to abandon the effort. Even the plight of the urban poor, as grim as it is, seems not as hopeless in comparison.

Our focus is on housing -- housing for those of low and moderate income. In many urban areas, the housing problem for them is largely one of money -- although the racial issue greatly complicates the issue for many. Given increased income for housing, many urban families presently forced to occupy substandard housing could be expected to make those changes in their housing arrangements that they

would require in order to be satisfied; this satisfaction could be found largely as a result of the functioning of the private housing sector, whose record indicates a responsiveness to housing demand when that demand has been accompanied by purchasing power. Similarly, given subsidies and financial incentives comparable to those of recent years, the housing industry has shown it will produce at record levels even new construction to meet low and moderate income needs. Whether the rate at which the need was being met was adequate, or whether the return on the public investment in the subsidies was sufficient in the face of other national priorities are separate questions. Nevertheless, direct and indirect supplement of the purchasing power of the urban lower income family seems the main ingredient to improvement of its housing condition.

In the rural milieu, the situation is far more complex. This is because, in the non-urban setting, there is far more lacking than mere purchasing power. The rural areas are starved for resources of every kind -- not only personal resources, but also public and private resources in general -- and this starvation manifests itself in the glaring absence of the entire range of residential services: transportation, water and sewer facilities, decent schools, stores, fire and police protection, medical resources, parks and other community facilities and services. The rural areas represent considerable underinvestment in economic and social overhead capital -- the (public-sector) infrastructure that is the basic requirement for rising standards of living. Nor is this under-investment the result of deliberate, callous public policy. Resources

continue to be critically limited, and population dispersal and low density in the rural areas force on government the equally unattractive alternatives of continued underinvestment or extremely high gross unit investment costs and/or quite low returns on that investment.

II. OBSTACLES TO MEETING RURAL HOUSING NEEDS

Those unaccustomed to struggling with housing problems in this context -- the context of rural poverty -- might wonder which of the factors -- ruralness or poverty -- is the greater impediment to a solution to the housing problem that we are becoming ever more aware is synonymous with rural poor areas. It could perhaps be argued that ruralness is the more consequential factor, with poverty an aggravating addition. In any event the consequence of the two in tandem is a housing problem that has defied, not only solution, but even substantial mitigation, with the tools and programs heretofore at our disposal.

On the Demand Side.

Poverty causes the demand side of the equation to be weak: a great many rural people simply do not have the purchasing power without which demand for goods and services cannot be made effective demand, to which the marketplace might be expected to respond. One can see this in the low per capita annual income of the West Virginia population statewide: the 1971 figure was $3228 per capita, which is only 78% of the national average and lower than all but four other states. Highly important to recognize, however, is the distortion of this figure by the

inclusion of such relatively affluent urban areas as Charleston, Morgantown and Huntington. According to 1970 Census data, twenty-nine of West Virginia's fifty-five counties had average per capita income of less than $2000 per year, and these twenty-nine counties account for approximately 27% of all West Virginia households. But even these data do not tell the whole story. In Logan County, for instance, which the 1970 Census determined to have an average per capita income of $2004, that same survey found that 45% of all households earned less than $5000 in 1969, and that 30% of all households earned less than $3000.

Moreover, cultural complications abound. The legendary independence of the Appalachian mountain people predisposes them against multi-family housing: the single-family, detached house (if only a shack), and the plot of ground (if only a patch of clay that seems to spawn nothing but rocks, and therein to be quite prolific) are the very center of his life style, and ideally will be located near the upper end of a nearly impassable hollow.

Additionally, we have been told repeatedly of the low priority such people place on housing; and, even where their income would permit otherwise, of their corresponding unwillingness to spend, for shelter, a percentage of income consistent with the national average.

The demographic profile of West Virginians is a further impediment to an improvement in the housing situation. Over the course of the 1960s West Virginia's population declined by 6.2% (only two other states actually lost population over the decade). This gross decline

was accompanied by an increase in the number of persons age 65 and over, from approximately 172,500 to about 194,500 (a 13% increase), or from 9.3% of 1960 population to 11.2% of 1970 population. From 1950 to 1970, despite an overall decline of 13% in the State's population, the number of persons 65 and over increased 40%. Yet the elderly represent a segment of the population especially unlikely to upgrade their housing standards.

On the Supply Side.

In addition to these weak demand factors, in the rural setting a major additional consideration -- perhaps the hallmark of rural, poor areas -- is the weakness or absence of the supply side of the equation.

The housing stock itself is an incredible array of inadequacies, as the following chart shows:

	U.S.	All W.Va.	Rural W.Va.
Year round units lacking one or more plumbing facilities	6.9%	18.3%	28.3%
renter occupied units lacking one or more plumbing facilities	8.3%	18.1%	23.1%
occupied units overcrowded	8.2%	9.1%	11.8%
renter occupied units overcrowded	10.8%	12.6%	17.7%
median value, owner occupied units	$17,000	$11,300	$8,500
Median rent, renter occupied units	$89.00	$52.00	$37.00

Source: 1970 Census data

Moreover, West Virginia, where incomes make public housing the most appropriate of the subsidized housing programs -- approximately one-third of all West Virginia households qualify for public housing -- has

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been grossly under-represented in the distribution of public housing units:

	Total U.S.	West Virginia
Substandard units per public housing unit	8	24
Poverty-level persons per public housing unit	23	65
Elderly poverty-level persons per elderly public housing unit	19	32

But beyond the inadequacies of the housing stock, the gross lack of supply extends to severe lack of those resources necessary to provide even a minimal level of residential services -- not only units of standard housing, but also schools, stores, transportation facilities, water and sewer facilities, and leisure and recreational opportunities. Scarcity of these resources presumably results from population dispersal and low density. And dispersal and low density describe West Virginia. For instance, State-wide average population density is approximately 72 people per square mile, based on 1970 Census data. Some of our counties have densities of fewer than 10 people per square mile (PPSM); nine of our fifty-five counties (16%) have densities of fewer than 20 PPSM; and 28 (50%) have fewer than 50 PPSM.

The consequence of this is that residential services are either extremely costly, both in gross- or unit-cost terms, or are not provided, and more often than not the latter is the situation. An excellent case in point is sewage treatment. A study by the State Department of Health

concludes that approximately 50% of the State's population is NOT served by sewage treatment facilities, even though the soil and underlying strata generally make alternative arrangements very poor alternatives indeed. Nor is the 50% without treatment facilities confined to the most rural areas: presently further development of potentially a leading growth area within the State -- the Charleston-Huntington Corridor -- has been placed under a moratorium because the absence of sewage treatment facilities has caused severe problems for the area's various water supplies.

Extend this situation to other essential services -- schools, jobs, transportation, health care -- and at least a notion of the realities of non-urban America begins to emerge. Coupled with this is the general absence of local government units to provide effective delivery of those services available, or, more importantly, to agitate and lobby for increased resource flow to the rural areas. In West Virginia 55% of the population live outside incorporated areas, and a drive through the State produces a seemingly endless litany of communities, the identifying sign for each hastening to add that the community is unincorporated.

Further, if the situation in West Virginia is any measure, the housing "industry" that confronts the home buyer or prospective home buyer in the non-urban area is anything but reassuring. In much of West Virginia there simply is no building industry. Our involvement with multi-family projects has demonstrated that, even in the most urban areas of this rural State, there is virtually no housing management industry. Moreover, that same involvement has pointed up the lack of a development industry. Almost

without exception the development of multi-family projects has been done by out-of-State developers -- often a sore spot with West Virginia's builders. In the exceptional case where the developer is local, the burden on the staff of the Housing Development Fund to guide the developer through the intricacies of multi-family development -- doing the developer's job for him -- is enormous.

Finally, the "credit" industry runs true to form. The traditional bulwark of the residential mortgage financing industry, the savings and loan associations, are found only in twenty-two of West Virginia's fifty-five counties. In many cases, the would-be mortgage borrower is thus dependent on commercial banks; and commercial banks in non-urban areas prove the accuracy of the observation that banks want to lend money to people who don't want to borrow, or who don't need to borrow. The terms on which rural banks -- at least rural West Virginia banks -- are willing to make mortgage loans show that FHA hasn't been uniformly successful in changing the mortgage lending industry to high loan/value, relatively long-term loans. There are numerous instances where banks will not lend for as long -- really as short -- as ten years; and a loan/value at 70 or 75% can be quite high by local standards.

* * * *

This is the context within which the Housing Development Fund, the housing finance agency for West Virginia, was created in 1968.

State housing finance agencies (HFAs) trace their ancestry to 1960, and the creation of the New York State HFA. The Massachusetts HFA

was created in 1966; the Michigan State Housing Development Authority that same year. 1967 saw the birth of the Illinois Housing Development Authority, and the New Jersey HFA. In 1968 the New York State Urban Development Corporation was added to the growing list. So was the West Virginia Housing Development Fund, strange company for a club made up -- with that one exception -- of states that are industrial, affluent, and urban.

West Virginia is none of these. It isn't industrial. Manufacturing contributes only 20% of the State's total jobs. Nor, of course, is it affluent or urban.

Yet, the principal program tool the Housing Development Fund has had at its disposal over the several years of its existence, the Section 236 program, is urban-oriented, and does not produce rents low enough to be relevant to much -- if not most -- of West Virginia. We hope that out of the present moratorium and re-assessment will come programs that will be a substantial improvement on that situation, and to that end should like to discuss our experience with those programs heretofore at our disposal, with some additional, more limited, discussion of other programs that we have not been able to use, but which we have observed others use within the State.

III. APPLICABILITY OF EXISTING FEDERAL PROGRAMS TO NON-URBAN AREAS

Section 236: The problems we have encountered in attempting to mold the Section 236 program into an acceptable tool to use in addressing West Virginia's housing problems fall into two broad categories -- those problems which arise from and are attributable to the rural nature of the State, and those problems which are a direct result of the nature of the Section 236 program.

The previous section has provided a vivid description of the setting in which we are attempting to produce housing -- a setting which holds true for all rural states, and the rural areas of even the most urban states. Within this setting we have attempted to construct housing using Section 236 - a program designed and administered to function in an urban atmosphere where the economies of scale upon which the program is based are available.

The initial problem to be faced in rural areas is the low population density. The housing market is spread very thin and there are few population centers which can support a rental housing development of any scale. Under the Section 236 program, however, as the size of the development decreases the per unit cost of the development and the monthly rent increase due to the fixed costs built into the program (i.e., fees, BSPRA, land development costs and management). We have found that it is virtually impossible to produce a development of less than 50 units in West Virginia because the increased cost per unit at such a reduced scale becomes infeasible.

Adding to and aggravating this problem is the low average family income in rural areas. Not only is it lower than the corresponding income of the urban family, but the rural family has historically paid a very small percentage of its income for housing - much less than the HUD guideline of 25%. Moreover, we have found 20% Rent Supplement in a 236 project to be far too low. As a minimum, 40 or 50% -- if not higher -- should be standard.

Another very real factor is the cost of land and land improvements. The casual observer might think West Virginia the ideal spot for housing development with miles of sparsely populated mountain area. The realities are, however, costly and difficult. Buildable land is at a premium due not only to the absence of utilities but also to tremendous costs associated with land development. Almost all of our developments are burdened by site improvement problems not usually associated with multi-family construction in urban areas - cuts, fills, retaining walls, rock formations, erosion and long access roads. Raw land costs average $638 per unit which, although comparable with urban land costs,* is not an unworkable cost, but to that we must add site development costs of from $1,200 to $3,400 per unit. We are, therefore, expending from $2,000 to $4,000 per unit for land and land improvement costs before we even start on the building - in an area where the surrounding atmosphere and the predilection of the tenants dictate a low density development so that the costs cannot be mitigated by building at a higher density.

* On twenty representative developments the per unit land cost experienced by the New York Urban Development Corporation was $690.

TABLE I

Land and Land Improvement Costs Experience
(On a Per Unit Basis)

Development	Land Cost Per Unit	Land Improvement Cost Per Unit	Total
City Park Village	$ 308	$ 1,718	$ 2,026
Unity Terrace	728	1,750	2,478
Green Acres	320	1,701	2,021
Bridgeport Gardens	663	2,460	3,123
Berkeley Gardens	848	1,555	2,403
Hillcrest Apartments	732	1,182	1,914
Oakwood Terrace	549	3,405	3,954
College Park Apts.	820	1,501	2,321
Southmoor	752	3,327	4,079
Pinewood Village	1,096	2,387	3,483
Average	$ 682	$ 2,099	$ 2,780

The Section 236 program requires that tradesmen be paid prevailing wages and that the housing be designed and constructed to meet Minimum Property Standards (MPS 2600). In rural areas prevailing wage generally is from 25% to 40% above what the tradesmen would earn on a conventionally financed multi-family development, and construction in accordance with MPS 2600 produces a building far superior to any of the surrounding conventionally financed multi-family structures. All of these added costs are reflected in the construction costs and rental rates of the federally assisted units. A local builder in Kingwood, West Virginia who developed a very successful 58 unit development under Section 236 was appalled when he had to pay the same tradesmen he used on his single family construction crews 150% of their normal hourly wage in accordance with the prevailing wage rates. In comparing multi-family developments constructed under Section 236 with conventionally financed well constructed units of similar

size and amenity level we have found that the construction techniques and material specifications required by MPS 2600 added from 30% to 40% to the land development costs including roads and sidewalks and from 8-10% to the structures cost of the development -- costs which increase rentals and reduce the number of potential tenants served by the developments, and thus the relevance of the program to the non-urban areas.

Other cost items aggravating the situation in the rural areas are to be found in the fee structure provided by the 236 program. We should like to see architectural fees reduced, and BSPRA totally eliminated in favor of a builder's profit allowance which is a percentage of the construction cost. Consultant, financing and other middle-man fees also should be reduced. Moreover, it has been our experience that non-profit sponsors do not have the resources for successful participation in the program.

The processing procedures of the local HUD Insuring Office are certainly one of the major problems affecting the success of the Section 236 program in West Virginia. By their very nature the HUD market procedures are reactive rather than constructive. Given the desperate need for assisted housing within the State, it makes little sense merely to react to developer proposals for certain population centers in lieu of establishing areas of priority where limited resources can be used to the greatest benefit. Add to this a tedious and cumbersome processing system where all proposed developments, regardless of merit, are subjected to enumerable delays and it is little wonder that only the most patient

developers -- whose initial costs were inflated to allow for a 15-18 month processing delay -- are interested in involving themselves in subsidized housing where FHA is concerned. Our experience has shown that from 6-10 months can be anticipated in order to receive a feasibility letter, and an additional 3-6 months can be anticipated in receiving a firm commitment - even under the best of circumstances.

All of these factors -- the urban orientation of the Section 236 program, the low average family income, the high costs incurred in land acquisition and development, the program constraints of prevailing wage rates and minimum property standards which increase construction costs and the tedious processing delays -- make it extremely difficult and costly to produce acceptable units under the program. Invariably the rentals which are produced are above the regular income limits for the area and far in excess of the median rentals. To cite but one example: a 100 unit development financed under Section 236 in Fairmont, West Virginia (population 26,100) has an average rental of $125.22. Though quite modest when compared to average rentals of similar developments in more urban states, this rental nevertheless is more than twice the median rental for the community ($60.00), and is higher than rents charged for over 96% of the existing rental units in the community!

An additional problem which relates to both the costs and market is that under the existing program restrictions, families whose income exceeds the income limits established by HUD must pay market rent. Since the income limits for most rural states are extremely low and the costs of

producing units are disproportionately high, the income range of the families to which the units can be marketed at basic rentals is extremely small. As rentals increase toward the established limits the income range of families eligible for the development -- the true market for the project -- decreases proportionately.

Section 235: The Section 235 homeownership program, in which the Fund has been unable to participate to date due to the non-insured status of construction advances, has been singularly unsuccessful in furthering the cause of homeownership in most of West Virginia. Statewide, the volume of homes produced under the program has never reached the level the population and income levels of West Virginia would warrant. Since the inception of the program in 1968, only 707 units of Section 235 housing have been built in West Virginia and, as the table below shows, only 16% of these (118 units) have been constructed outside of major population centers.

TABLE II

Section 235 Homes Constructed in West Virginia
From Program Start in 1968 thru March 1973

Charleston SMSA (Including Putnam County)	321 Units
Parkersburg SMSA	140 Units
Huntington SMSA	82 Units
Wheeling SMSA	38 Units
Weirton	8 Units
Other areas of the State	118 Units
Total - - - -	707 Units

This low volume is certainly not indicative of a lack of demand on the part of potential homeowners, but rather of a lack of interest on

the part of the building industry. We have found that in many areas Minimum Property Requirements are both inappropriate for rural areas and generally far too stringent to meet within cost constraints; land development is both difficult and expensive, and is another factor tending to costs which exceed existing limits (which until last month were $18,500); processing takes too long and requires the builder to deal with a central office in Charleston rather than a local county office (as is the case with Farmers Home) or a local financial institution; local banks and savings and loan associations are not interested in the program because of the paperwork required. Probably the most important factor, however, is that the small home builder can make more money with much less work and hassle on a higher priced, conventionally financed house. This formidable set of obstacles has resulted in a general lack of interest in the program by both builders and mortgagees at the expense of potential homeowners.

Public Housing: Especially in the rural areas of West Virginia, where over 60% of the State's residents reside, the income levels of many families warrant public housing. Other than Rent Supplement assistance, this is the only program which produces rentals at levels within the reach of the truly poor. Nationally, however, the public housing program remains largely an urban program with the vast bulk of the program resources going to major metropolitan areas.

West Virginia, like many rural states, has simply not received its fair share of public housing funds. On a simple population basis the ratio of West Virginia's total population to the U.S. population (0.9%)

is almost twice as great as the ratio of public housing units under contract in West Virginia as compared to the U.S. total (0.48%). On a need basis this inequity is even more dramatic:

- there are 24 housing units either overcrowded or lacking plumbing facilities for each unit of public housing in West Virginia - nationwide the figure is 8 to 1;
- there are 65 below poverty level persons for each public housing unit in West Virginia - nationally, it is 23 to 1;
- there are 32 below poverty level elderly persons for each elderly public housing unit in West Virginia - nationally, the figure is 19 to 1.

In part this situation is the result of the essential intermediary (the housing authority in the case of public housing) -- consistently a requirement of existing federal housing programs -- being conspicuous by his absence. In West Virginia there presently are 33 housing authorities (28 city authorities and 5 county authorities), of which only 20 have units occupied or under construction. Only 18 of West Virginia's 55 counties contain public housing units, and over 61% of the State's total amount of existing or planned public housing is in the three largest cities (Huntington, Charleston and Wheeling).

Complicating the disproportionate allocation of public housing resources to urban states and urban areas are the cultural realities and low population density of rural areas. Public housing requires not only

positive local public action in the form of a local public housing authority, but also a viable local delivery system; and there is a serious absence of productive housing authorities in rural areas to deliver this form of housing assistance. Moreover, the suggestion that one way for a locality to keep out public housing is to create a (dormant) authority has not gone unnoticed. Most important, perhaps, most of the other difficulties, cited earlier, facing rental housing in low density areas -- such as high per unit development and management costs resulting from reverse economies of scale -- apply fully to rural public housing.

FHA Conventional Mortgage Insurance Programs: Many of the conventional mortgage insurance programs administered by the Federal Housing Administration, especially the multi-family programs, are simply not applicable to rural states because the monthly payments for rental or mortgage amortization are too great and the paperwork involved in processing is too lengthy. West Virginia has kept pace with the rest of the country in the decline of popularity of these programs. Moreover, the onerous financing points, involved whenever the FHA ceiling interest rate is below the market rate - the rule rather than the exception - have contributed to this decline, especially as the developer and consumer have become more sophisticated. Finally, private insurers have become an ever more popular and attractive alternative and conventional (i.e., non-FHA/VA) loans have become available at an ever higher loan to value ratio.

The Fund has acted as mortgagee on one multi-family development financed under Section 221(d)(4). The developer, a very experienced and sophisticated firm, indicates that the FHA processing procedures delayed

him to such an extent that had he utilized conventional financing he would have saved over $100,000 in labor and material cost increases which developed over the processing period. Add to this the fact that a conventional mortgagee would have had to charge between two and four points to make the investment attractive and you begin to see not only why costs and rents escalate, but also why developers -- especially good developers -- rapidly lose interest.

Farmers Home Administration: Because of its rural nature, West Virginia is exceedingly appropriate for Farmers Home Administration housing programs. But FmHA appears to be conservative in making loans and there seems to be a perverse correlation between a county's income/housing needs and the incidence of FmHA housing activity.

In fiscal year 1972 FmHA made 2,124 homeownership loans under Section 502, up from the fiscal 1971 total of 1,970. However, only 161 of these loans or 7.5% were made in the ten most rural counties of West Virginia, and many of the southern coal-producing counties where new housing is desperately needed had no Section 502 loans at all.

Also in fiscal year 1972, FmHA made 93 home repair loans under Section 504 (a dismal record in a rural state where home repair and conservation of existing housing is badly needed), up from the 85 loans made in fiscal 1971. Of this total only six loans were made in the ten most rural counties and only 36 loans were made in the 30 most rural counties of the State!

Much of this inactivity can be attributed to the conservative administration of the FmHA programs, and to the lack of an aggressive building industry in West Virginia. Part of the problem, however, is attributable to the cultural aspects of the rural people. We have found a tremendous reluctance on the part of many rural families, especially senior citizens, to go into debt and to obligate their land. They will refuse a Section 504 home repair loan which carries an attractive 1% interest rate for a period of 10 years simply because they are required to place a mortgage on their home, which often was purchased outright from a coal company with hard earned savings.

The Farmers Home Section 515 program for rental housing has been greatly under-utilized. Only three projects have been developed in West Virginia since the inception of the program, and only one of these made use of the interest credit provisions available under the program. The poor record of this program is attributable to the inexperience of FmHA with rental housing, but also to the essential fact that rentals under the program are too expensive for rural areas given the stringent income limits of the program ($8,500 maximum). Moreover, the interest subsidy allowance which can be attached to the 515 program currently is available only to non-profit sponsors, which seriously limits its relevance and impact.

Land Development Programs: Both the Department of Housing and Urban Development and the Farmers Home Administration have land development or site loan programs, but the effectiveness of these programs has been

severely hampered by the regulations governing their use. The Farmers Home Administration Rural Housing Site Loan Program (Sections 523 and 524) is limited to participation by non-profit sponsors who generally must repay the loans within two years at an interest rate of 7.25%. This restriction completely excludes private developers and builders from participation, and has been a key factor in the limited use of this program. The Department of Housing and Urban Development has a mortgage insurance program (Title X of the National Housing Act) for land development, but this program is tied to the use of existing interest rates (7%) and the normal fees and processing delays associated with FHA insurance and private mortgagees. These costs have limited the use of the program to very large and costly developments generally tied to new community development.

Rehabilitation Programs: Effective, well thought out and adequately funded rehabilitation programs have been conspicious by their absence. The HUD programs -- principally "Operation Rehab" -- have been of a demonstration nature, limited to large metropolitan areas where the scope of the problem being addressed is neighborhood-size, and have been less than successful. Rehabilitation programs consistently have been relegated to a position of much lower priority than programs tied to new production. The arguments against rehabilitation programs (i.e., higher cost, less usable and desirable space, poor surrounding neighborhoods) are unfortunately based on urban experiences, and are not valid in rural areas where rehabilitation programs are, or should be, concerned with existing single family homes.

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In the rural areas, the Farmers Home Section 504 program has been tremendously under-utilized. But if rural housing problems in this and other states are to be solved, we must concern ourselves not only with new production but also with the conservation of those existing units which are repairable. The need for an effective rural rehabilitation program is clearly documented by the number and incidence of substandard units in the rural areas, by the delay and cost associated with new construction, and by the tendency of new construction to incorporate features which have become necessities to the middle-class urban dweller, but are costly and superfluous frills to the rural resident. Particularly needed are rehabilitation programs that emphasize moderate up-grading of homes rather than complete renewal. Focus should be on improving a few important items in a house, such as plumbing, roofing or wiring, to improve living conditions at moderate cost. Not only is this much more sensible for most rural homes than gutting and total renovation, but would be far more practicable to accomplish with the simple carpentry and other home improvement skills possessed by many rural people.

IV. SUGGESTIONS FOR FUTURE GOVERNMENT POLICIES AND PROGRAMS FOR NON-URBAN AREAS

Federal involvement in housing goes back four decades, to the Federal Home Loan Bank Act of 1932 and the National Housing Act of 1934, the former creating the Home Loan Bank System which encompasses the federal savings and loan institutions, the latter establishing the Federal Housing Administration whose principal role at the time was to administer the federal mortgage insurance system also established by the Act.

Except for a temporary interruption during the World War II years, federal housing involvement has proceeded snowball fashion, with particular momentum -- and size -- added during the decade of the 1960's. In spite of the spate of new departures over the last ten or so years, however, the oldest programs remain the most successful, and perhaps understandably so. In those early programs the government sought principally to establish the framework within which the private sector would operate. The FHA mortgage insurance is a particularly good example. Its purpose was to effect certain changes, felt to be desirable, in the mortgage lending industry, principally in the form of higher loan/value and longer term. The FHA did not become a mortgage lender; it merely established a framework -- the insured mortgage loan -- within which the private mortgage lending industry would operate. The purpose of the FHA wasn't to replace the private mortgage industry, but merely to alter its course in a way felt desirable. To that end it has been

overwhelmingly successful.

This is an example of public intervention at its best. Direct, program costs to the public are kept under control; dead-weight loss associated with government programs providing transfers in kind -- as opposed to transfers of income -- are minimized or entirely eliminated.

Such has not been the case, however, with the variety of housing subsidy programs the government has undertaken over the thirty-five years since the inception of public housing. Although there have been variations thereon, the consistent theme of those programs has been transfers in kind. The mounting criticism of those programs, for reasons of cost and equity, needs no recounting here, though the present moratorium speaks to the Administration's awareness of and agreement with much of that criticism.

There is even considerable feeling on the part of some that, in spite of what (temporary) measures might supplement or supplant the programs presently under moratorium, ultimately the basic government "housing" subsidy effort will center on an income-transfer program. No one -- even its proponents -- expects this to come about soon. It is too bold a departure -- and we have too well-established a tradition of resisting bold departures -- for such a program to be a likely, near-term eventuality. Nevertheless, some are confident that we can be expected to reach -- and act upon -- the conclusion that an income-transfer program is likely to be the least costly, least inequitable, and least counter-productive among alternatives.

An income-transfer approach has, of course, been suggested; and one form thereof, housing allowances, presently is being pilot-tested. The debate surrounding the use of an income-transfer approach has emphasized the possibility that increased housing expenditures on the part of lower income families is likely to result primarily in an increase in housing costs rather than in an increase in housing services through up-grading.

The issue has to do with the price and income elasticity of the supply of housing services; and, though the final results from the housing allowance pilot programs are not in, there is evidence of supply elasticity as opposed to inelasticity, encouraging the notion that increased housing expenditures on the part of lower income families could be expected to result primarily in better accomodations.

If the core of the government's housing program should ever become not a "housing" program at all, but rather an income-transfer program, it would have the effect of making explicit recognition of the fact that what the low income population suffers from, ultimately, is poverty. All else would be considered effect, and the primary attack should be on the cause rather than on the effects.

Such a "housing" program would, of course, imply a much-diminished role for the federal government in the housing sector. (It would not necessarily imply a smaller role for local government, however, since considerable effort at the local level, including such matters as effective code enforcement, would undoubtedly be

necessary if an income-transfer program were introduced.) This "withdrawal" of the federal government could be expected throughout the urban areas in general where residential services -- schools, transportation, health care facilities, shopping, recreation facilities, water and sewer facilities -- are in reasonably good supply and where there is a housing industry -- broadly defined -- to respond to the increased demand for housing services. Since the bulk of the American people -- perhaps 70% -- live in such urban areas, for the housing market areas in which the vast majority of the population live the appropriate housing posture for the federal government would be a much lower profile.

But even if such a transformation is determined as the appropriate federal "housing" response for the urban areas, it would not be adequate for the non-urban areas. The very ingredients essential to the success of such a low profile governmental response -- an existing housing industry and a rather complete array of residential services -- generally found in the urban setting, are sorely lacking in the non-urban areas. For this reason an entirely different governmental response is essential for the non-urban areas, and in contrast to the low profile response appropriate for the urban areas, for the rural areas a "large profile" is the only response having the possibility of achieving the desired objectives.

In this regard, two factors should be borne in mind: though a substantial governmental response is called for in the non-urban areas,

the federal government is not the level of government most appropriate to this response. Additionally, a response limited to housing, per se, is both inappropriate and grossly inadequate.

What we are talking about in the non-urban areas is not merely the need for (decent) housing, but the need for community-building. For years American political scientists and economists have talked and written about the need for -- and problems associated with -- community-building in developing countries, paying all too little attention to the problems and needs of their own "developing" (as a euphemism for underdeveloped) areas. Such attention is long overdue. We hope we see the beginnings of change on the federal level in, for example, the Rural Development Act of 1972. We feel the present moratorium on federal housing and community development programs a very appropriate time to discuss the issue of the dilemmas of housing in the non-urban setting, and to that end offer some specific suggestions based on experience we have gained wrestling with these dilemmas.

As we have indicated, a principal conclusion we have reached as a result of trying to deal with the housing problem in rural areas is that housing is too narrow a focus. Rather, the focus must be on the community-development process. Government will have to play a major role in this effort, and involvement encompassing the full range of federalism -- in the sense of the federal, state, and local levels -- will be essential. But assigning an appropriate role to each level is also essential. The federal role should be one of setting broad, national standards and

objectives, and of redistributing resources to the implementing and receiving entities. The federal government is very ill-suited to an implementing role, and there is substantial and growing awareness of this fact.

What, then, is the proper implementing "layer" of government? In the urban setting, there is a well established and growing pattern of direct federal-local links, bypassing the states. The history of such a direct link is seen, for instance, in public housing, urban renewal, and model cities, to cite several program examples. Moreover, such a direct federal-local link has been affirmed in the general revenue-sharing distribution formula, as well as in the proposed special revenue-sharing distribution formulae.

Such a direct federal-local link is, however, completely inappropriate in the rural setting. In many instances there is hardly a viable local unit to receive and dispense such funds in a way likely to further any national objective. But more importantly, with the needs of the rural areas so large compared to available resources, it is absolutely essential that distribution-implementation reflect priorities which in turn reflect a reasonably comprehensive program designed to further desirable objectives, such as, for example, greater population concentration, investment in intra-regional areas having certain existing advantages, or efforts to maximize return on investment that is designed to increase total regional income.

In non-urban areas, localities are far too small to have any economies of scale, and far too parochial to hold out the likelihood that they could fill the implementing role in such a way as to further national objectives. The problems of poverty and lagging regions ideally invite regional approaches, but the United States has no truly regional governmental entities. With all their limitations, the states are the closest approximations, and thus the states are the appropriate level of government to fill the distribution-implementation-investment functions in the non-urban setting.

But because the furtherance of national objectives should be a part of any rural development program, once the national objectives are agreed upon each participating state should be required to produce an analysis of its rural situation, a statement of objectives, and a general plan for proceeding. A first and essential order of business would be the creation of a state Department of Community Development. (The name of the proposed agency is chosen deliberately. Urban states have been creating Departments of Community Affairs, which is felt to be slightly inappropriate. Correspondingly, a Department of Rural Affairs is not quite adequate. Community Development is the best expression of the principal objective.)

The agency must be as comprehensive as community-building dictates. It is essential that it be considerably more than advisory in nature, and must have at its disposal a full range of hardware programs, some of which, such as water and sewer, are absolutely essential. The

agency should have a major input into the location and re-location of future roads across the state; and, depending upon the particular state situation, perhaps should have the capacity to encourage greater school district combination and concentration.

If we define development as "any activity which materially affects the condition of land or improvements," the central role of land -- and the ability to control its disposition -- becomes clear. Land is the only factor of production that is immobile, as it is the only factor that is in fixed supply. Central to the agency's objectives, then, will be not only the ability to acquire land through simple negotiation, but also through condemnation where necessary. Likely to be the most controversial proposal, it should be borne in mind that only the ability to condemn land has made public re-development of urban areas possible, and that power is hardly likely to be less important in non-urban areas.

Housing will, of course, be an important part of the agency's program, and it must be able to attack the housing problem on many fronts. Depending on what federal programs emerge from the present moratorium and re-assessment, it is essential the agency be empowered to act as an intermediary for its intended constituency. Moreover, the income level of that constituency no doubt will make public housing most appropriate, and to this end the agency needs to be constituted a state-wide housing authority, to operate where no start has been made to meet the need for public housing. Further, within its housing division, the

agency should have an office of rehabilitation and production. Rehabilitation of existing units is likely to be a very appropriate and important function for the housing division of the agency. Moreover, it will be essential for the agency to have the capability -- either in-house or through a tie to others -- to provide scattered units of new housing of modest design and very low cost where rehabilitation is either impossible or impractical.

Even with the creation of a strong Department of Community Development at the state level, or of a cluster of coordinated state agencies that together can fulfill the function of such a Department, little progress will be made in meeting the community development problems, including housing, of a state's rural areas unless the federal government continues to supply the great bulk of the funds essential to make the development possible.

The funds could be provided through an array of categorical federal programs such as we have had in the past. If so, it would be essential to continue many of the present programs that have proved useable for rural areas, such as sewer and water grants, public housing and interest subsidy programs. However, as can be learned from experience with existing housing programs, described earlier, all of these programs will need modifications, some drastic, to fit better the unique circumstances of housing in the non-urban setting.

The funds could also, and perhaps preferably, be supplied by federal revenue-sharing. The primary concern we would have with this

alternative is the frequently mentioned difficulty of converting revenue-sharing funds received in a single year or over a very limited number of years into capital intensive facilities paid for over a much longer time span -- a difficulty that contract authority and annual contributions contracts overcame. If this problem can be resolved by some ingenious use of capital grants, federal guarantees, etc. -- and we have no bright ideas on this to suggest at this point -- revenue-sharing for community development, including housing, would seem the ideal financial mechanism to power the variety of programs administered by the proposed state level Department of Community Development.

* * *

We've come full circle, from a discussion of the dilemmas of federal housing policy to a discussion of a new agency, at the state level, in which housing would occupy an important part, but only a part. In a sense we've also come full circle in our discussion of the appropriate role for government with regard to housing subsidies. Starting with a substantial federal role as a provider of funds and programs -- with the action of intermediaries essential to implement those programs -- the federal position itself was somewhat intermediary in the sense of occupying an intermediate position in the long and complex chain which links lower income families and their housing needs, on the one hand, and the very earliest initiatives of others which ultimately may effect a response to the needs, on the other.

For the urban areas some propose that the federal government abandon this intermediate position and, in a sense, move to the consumer end of the chain, where the lower income families are, and to effect this move simply by replacing the present transfers-in-kind housing programs with an income-transfer program, and thus to let the more traditional housing market have a chance to demonstrate its ability to respond to the increased purchasing power of the lower income families.

For the non-urban areas we propose that government, both federal and state, abandon its intermediate position and move substantially to the other end of the spectrum, to where the initiatives must be taken that result in improved housing conditions for lower income people. Two differences distinguish the two sets of moves: the nature of the housing market area, and the level of government involved. Only in urban areas is an income-transfer program likely ever to succeed, and only the federal government has the resources and the jurisdiction to implement a national income-transfer program of substance.

For the non-urban areas, however, there is no housing market to respond to an income-transfer program, which means that the public sector will have to assume functions traditionally thought of as the province of the private sector. Moreover, for reasons outlined above, the state is the appropriate governmental level to undertake these functions, with the federal government setting national objectives and supplying most of the funds.

But these efforts in the non-urban areas should divide into two categories, and the distinction should be borne ever in mind: on the one hand, there will be need for programs that essentially are welfare; on the other -- and it is essential that this be the primary focus -- central program thrust will be resource investment, with the objective of realizing a return on that investment.

To undertake these investment programs -- as well as the unfortunate but necessary welfare programs -- we have proposed, then, creation of a state Department of Community Development, whose programs will reach far beyond mere housing. To effect the creation of such a Department, we propose that such an agency be mandatory for a state to receive certain federal funds, whether in the form of categorical grants for community development or special revenue-sharing.

Beyond the mere creation of such a Department, however, it would be advisable that certain federal requirements be imposed on its powers and programs, such as the requirement suggested above of having the power of eminent domain and the power to act as a state-wide housing authority, as well as the requirement of developing and presenting a program -- "plan" perhaps having become anathema to too many people -- outlining the state's proposals for community development.

* * *

The concept, including the imposition of federal criteria on the receiving/implementing agency, is hardly more than the idea of an

urban renewal or redevelopment authority transferred to the non-urban setting.

The proposal is quite consistent with the Administration's philosophy of New Federalism, and is very much in keeping with the revenue-sharing concept. In essence, the concept combines an area approach (each state encompassing an "area") and a truly national problem. The federal role would be one of defining the problem in broad terms, formulating national objectives, and evaluating program success. Knowing their situations and problems best, the states would be invited and encouraged to propose programs.

Two criteria are essential if this proposal for synergistic federalism is to work. One is the realization that the problems the proposal is designed to attack are truly national problems; the other is the realization that the design of adequate and relevant programs cannot be left to Washington. We feel that at long last we have arrived at those realizations.

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1973 HOUSING AND URBAN DEVELOPMENT LEGISLATION

WEDNESDAY, JULY 18, 1973

U.S. SENATE,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10 a.m. in room 5302, Dirksen Senate Office Building, Senator Robert Taft, chairman of the subcommittee, presiding.

Present: Senators Taft, Tower, and McIntyre.

Senator TAFT. The meeting will come to order. We will continue the meeting by the Subcommittee on Housing and Urban Affairs on housing and urban development legislation of 1973.

We are delighted to have as our first witness this morning an old friend, John J. Gilligan, the Governor of the State of Ohio. We are delighted to have you and your testimony.

TESTIMONY OF GOV. JOHN J. GILLIGAN OF OHIO, CHAIRMAN, COMMITTEE ON RURAL AND URBAN DEVELOPMENT, NATIONAL GOVERNORS' CONFERENCE, ACCOMPANIED BY RICHARD W. LINCOLN, SPECIAL ASSISTANT

Mr. GILLIGAN. Thank you, Mr. Chairman. Mr. Chairman, accompanying me this morning is Richard W. Lincoln, special assistant with the National Governors' Conference staff who serves as the director of the staff of the Committee on Urban and Rural Development.

I have the honor to appear before you today as chairman of the National Governors' Conference Committee on Rural and Urban Development. The other members of the committee are Gov. Linwood Holton of Virginia, our vice chairman, and Governors, Dan Walker of Illinois, Edwin W. Edwards of Louisiana, Christopher Bond of Missouri, James E. Holshouser, Jr., of North Carolina, Arthur A. Link of North Dakota, Philip Noel of Rhode Island and Richard F. Kneip of South Dakota.

Permit me to add, as the chairman knows, that I have had the honor of serving six times as a member of the City Council of Cincinnati and a term in the Congress. The term in Congress was interrupted rather rudely. However well I have served in these posts, I did then, and in my present post, learn through practical experience something about the marvelously designed and intricately balanced structure of our Federal system of government. And it is precisely that ingenious system—now almost 200 years old—that I want to discuss with the members of this committee, not as an academician

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or political scientist but as the elected chief executive of one of the great States of our Union.

I am not here today to report to you merely my own reflections or experiences but to summarize and interpert our committee report, which was adopted unanimously by the National Governors' Conference at its 65th annual meeting on June 6, 1973.

Mr. Chairman, I believe the recommednations contained in our committee report are extremely germane to your committee's consideration of the whole subject of community development and housing and I am grateful for this opportunity to present the views of the Nation's Governors as expressed at their annual meeting last month at Lake Tahoe.

Let me preface my remarks by pointing out that these recommendations were based on information collected in an extensive questionnaire on housing and community development which drew responses from 37 of the Governors. The results of this survey made it clear to us that the Governors of this Nation believe that State government must be more deeply involved in the conduct of Federal programs such as community development—and that the States are willing to accept the responsibilities which go with that involvement.

Mr. Chairman, I brought here today, and I offer to the committee, copies of the questionnaire and a summary of the responses to the questionnaire, and if they are of value to the members of the committee and should more copies be required, I am sure that Mr. Lincoln could provide additional copies from the offices of the National Governors' Conference.

Mr. TAFT. We will be glad to have this as part of the record.

Mr. GILLIGAN. I have brought along as well a copy of the policy positions as adopted at the National Governors' conference, and I think the members of the committee might find illuminating the policy statements offered by the Committee on Urban and Rural Development which were adopted without objection by the members of the Governors' conference. Again additional copies are available to the staff and to the members of the committee.

Senator TAFT. We will be happy to have them.

[The information follows:]

RESULTS OF THE MARCH, 1973, QUESTIONNAIRE ON RURAL AND URBAN DEVELOPMENT—A REPORT TO THE NATIONAL GOVERNORS' CONFERENCE

INTRODUCTION

On March 23, 1973, a questionnaire sponsored by the National Governors' Conference Committee on Rural and Urban Development was mailed to all governors. The survey was designed to secure gubernatorial opinion on the scope of state programs in community development, housing, and planning. The governors were also questioned about state-federal and state-local relations in the financing and management of these programs.

By April 16, when the returns were needed for drafting a Committee report, twenty-two states had replied. Fifteen more returns arrived in late April and early May. An overall return of nearly 80% seemed to justify the preparation of this report on a subject that is apparently of widespread concern.

Comparisons of the patterns of response were made for early vs. late returns, Republican vs. Democratic governors, and larger, more industrial states vs. smaller, less industrial ones.[1] There were no significant differences by time of

[1] The "larger, more industrial states" are those of the east and west coasts, the middle Atlantic, and the midwest. The "smaller, less industrial states" are those of the south, the southwest, the Rockies, and the great plains. The following table gives the number of returns in two categories:

return or by political party. On certain questions, the larger states responded somewhat differently from the smaller ones. Those few important differences will be noted as they occur.

	Democratic	Republican	Total
Large	9	7	16
Small	14	7	21
Total	23	14	37

The most striking aspect of the returns, however, is the broad area of agreement on the role of the states, regardless of size, region, or party. Indeed, it is this consensus and its implications for the federal system that is the main justification for this report.

SUMMARY

The results of this sounding of gubernatorial opinion show a broad area of agreement on desireable patterns of intergovernmental relations. If adopted, the governors' preferences would constitute a radical change in the present pattern of narrowly categorical federal grants, in which the states have historically played a passive role.

In all sections of the questionnaire, the same two clear and consistent themes emerged. Most respondents believe that (1) the present federal grants should be combined into broad blocks grants to support sets of related public services, and (2) the states should have the principal authority and responsibility for the allocation of federal funds to local governments. One or both of these themes were mentioned by 57% of the respondents who described specific changes needed in the federal-state relationship in community development services, and by 65% who described specific changes needed in the federal-state relationship in housing programs.

The governors' preference for block grants that would combine related activities is overwhelming, as the following data demonstrates:

Preferred grant pattern	Number of States	
	Community development services	Housing programs
1. Block grants	33	27
2. Categorical grants	3	4
3. Combination of blocks and categoricals	1	5
4. No response	0	1
Total	37	37

By somewhat smaller margins, the respondents believe that the states should exercise project-by-project review over local government activities that are funded by a new pattern of broad federal block grants. They are generally not in favor of distributing federal funds to the localities by formula, with only general supervision from the state. In short, many states are willing to assume a type of project review function that has heretofore been performed only by federal agencies, as shown by the following data:

Preferred State role in transferring Federal funds to local governments	Number of States	
	Community development services	Housing programs
1. State project-by-project review	23	20
2. Federal formula grants, with State approval of general spending plans	8	9
3. Combination of No. 1 and No. 2	5	7
4. No response	1	1
Total	37	37

The two themes—federal block grants and a decisive state role in grant allocations to localities—may be emphasized in various combinations by individual states. The table below shows the predominant patterns:

Preferred grant pattern and State role	Number of States	
	Community development services	Housing programs
1. Block grants with State project review	20	17
2. Block grants with general approval of local spending plans	[1] 7	6
3. Block grants with a combination of project review and general approval	5	4
4. Categoricals with State project review	2	1
5. Categoricals with general approval of local spending plans	0	3
6. Other	3	6
Total	37	37

[1] 6 of these are Southern States.

The large states' responses are not different from the small states', nor is there a difference by party. The only out-of-the-ordinary pattern is indicated by the asterisk.

The respondents are saying that, while narrow categorical grants may be obsolete, project review is not obsolete, contrary to the views of some advocates of revenue sharing. The locus of review and associated fiscal allocations should be transferred from the federal to the state level.

However, the review function is not be be performed in the same manner; the governors are clearly not thinking about merely substituting a state functional bureaucracy for a federal one. The questionnaire replies give extremely strong support to a state role in land use controls, state financial assistance to local and regional planning, uniform state districts, and state review of regional plans. This indicates that state project review will not be confined to the application of specialized functional standards, which all too often have been the basis for federal agency review of local proposals. Installing an adequate priority-setting mechanism at the state level means strengthening the state-regional-local partnership in planning. Thus, the governors foresee a system in which local and state projects fit into a comprehensive set of community development objectives. Arriving at these objectives depends, in turn upon the development of strong planning capabilities at all levels—local governments, sub-state regions, and statewide.

In their criticism of categorical grants and federal administrative practices, the respondents are clearly in sympathy with some aspects of Administration proposals, but they reject the view that unfettered spending by thousands of autonomous local governments will serve the public interest of the nation or each of the several states and they reaffirm their desire for an active state-local partnership in setting funding priorities. The respondents are troubled by some features of the 1974 federal budget. In general, they judge community development funding inadequate, and they are almost unanimously critical of the moratorium on housing programs. Most important, perhaps, they fear that the newly-generated momentum for an active state role may be lost through the methods chosen to overhaul the categorical grant system.

COMMUNITY DEVELOPMENT SERVICES

The respondents were asked to indicate what community development activities were very important, of moderate importance, or of little or no importance to the state. The answers provide a set of four services which constitute the backbone of a state program of support for local community development activities. They are waste water disposal facilities, water supply facilities, solid waste disposal, and public transportation. Each is cited as "very important" by more than 70% of the states. (See Figure 1)

Of equal interest is the other end of the scale, where urban renewal and model cities are thought to be very important by less than 30% of the states. This is not necessarily evidence of an anti-urban bias. The ranking can reasonably both a realistic appraisal of the limited output of these two programs and a rejection of a rural-urban dichotomy. The respondents appear to be asserting that a state

program should consist of services that are important to all citizens of the state, whose needs are the same whether they live in what are conventionally called "urban" or "rural" communities.

In all services excerpt urban renewal and Model cities, more than half the states are in favor of state grants to support local efforts (See Figure 2), and grant programs are mentioned more frequently than loans as a role which state government should play. For all services, the most favored federal role is a block grant, except in public transportation, where the present categorical grant system commands support equal to a block grant. Administration of funding through state review of local project applications is the most favored pattern of grant allocations, except in urban renewal and model cities. There the respondents are in favor of distribution by federal formula, with general state supervision.

FIG. 1.
STATE COMMUNITY DEVELOPMENT SERVICES

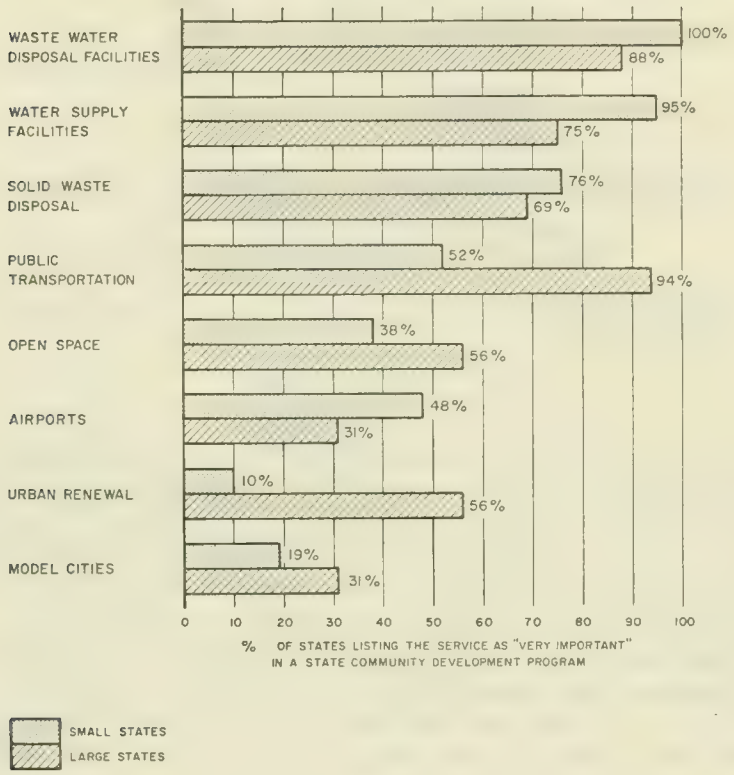
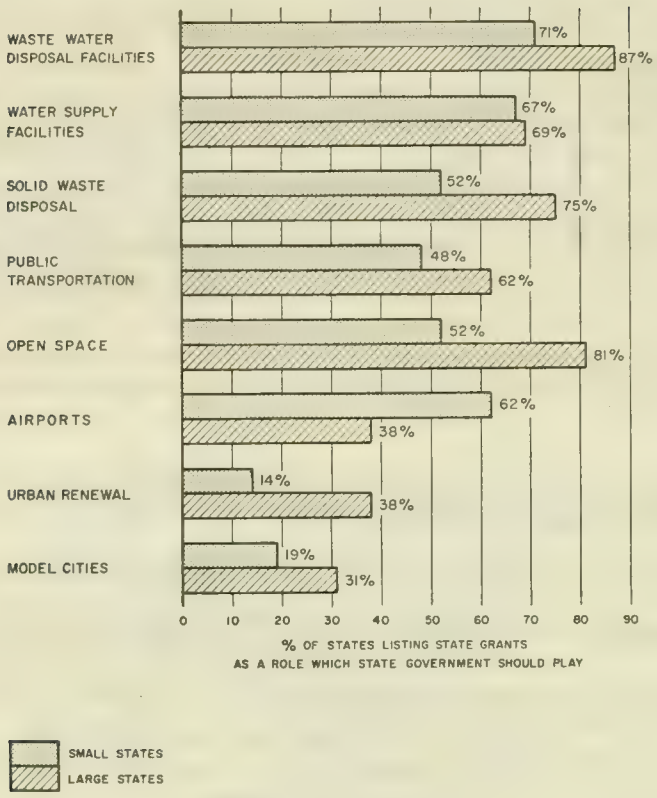


FIG. 2
PREFERENCE FOR STATE GRANTS TO SUPPORT
COMMUNITY DEVELOPMENT SERVICES



HOUSING PROGRAMS

No one disagrees that FNMA ("Fannie Mae") and FHA mortgage insurance programs should remain federally-financed and operated programs. At least 70% of the states see a basic role for themselves in three housing activities: low and moderate income housing construction and rehabilitation of existing housing (See Figure 3). There are no significant difference between the large and small state groups in their pattern of response.

Loan programs are the preferred state-local financing mechanism by more than two-to-one margins over grants. Rehabilitation grants were favored by 38%, the highest level of support for grants in any of the housing activities.

The heavily-favored federal role is identical to the desired role in community development services: federal block grants to the states, with state project-by-project review.

A question on the impact of the federal moratorium on new commitments for subsidized housing programs produced a high level of agreement across all categories of states:

Effect on housing starts

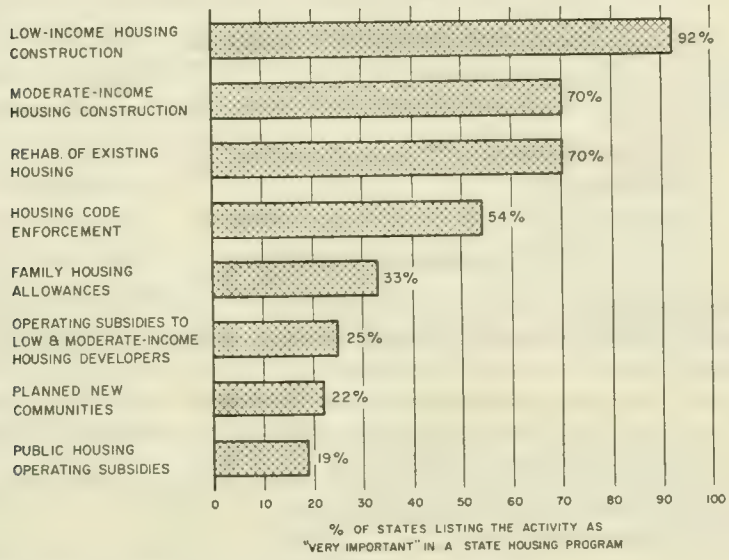
	Number of States
1. Serious adverse effect	26
2. Moderate adverse effect	3
3. Not sure	5
4. No response	3
Total	37

Two questions were asked about the anticipated impact of the Administration's special revenue sharing proposal in community development. One was on an assumed rate of growth in federal outlays ($1.96 billion in 1972 to $2.3 billion in FY 75), and the other was on the proposed year's delay in switching from the categoricals to a consolidated grant, with no new appropriations for FY 74. The following are the results:

Anticipated impact	Number of States	
	Rate of growth	Delay
1. Serious adverse effect	13	23
2. Unsure, or conditional response	17	9
3. No adverse impact	4	2
4. No response	3	3
Total	37	37

Twenty-four states believe that the Rural Development Act partly meets their needs, and only one state is fully satisfied with that program. Sentiment in favor of amending the Act to provide a more significant role for state government is unanimous (36–0). At the same time, respondents are evenly divided (19–18) on the question of combining federal rural and urban development funds into a single program. The even split remains when the returns are categorized by size of state or by party.

FIG. 3.
STATE HOUSING PROGRAMS



PLANNING AND MANAGEMENT

Land use controls, local and regional planning assistance, and uniform substate districts are the choice of more than 70% of the states as the central functions in a state program for improving state-local planning and management capabilities. There are some significant differences among large and small states. Greater proportions of small states cite, as "very important," regional planning assistance (86% vs. 65% of the large states), land use controls (100% vs. 69%), and public employee training (57% vs. 31%).

More than two-thirds of all respondents think that state grants for local and regional planning are desirable, and federal block grants are overwhelmingly favored to support state planning and management programs. Thirty-one states believe that present federal funding levels only partly meet their needs. Moreover, there is great dissatisfaction (29–7) with the present system for providing information about the types and amount of federal funds coming into the states. Both direct state assumption of land use controls and state review of local land use controls receive support, although the former is approved by less than one-third of the respondents. On the other hand, state review and approval of local land use controls is supported by thirty-one states.

IMPLICATIONS

These data provide the tentative outlines of a new state program in urban and rural community development. The focus of attention in such a program would be on waste water disposal facilities, water supply facilities, solid waste disposal, public transportation, low and moderate income housing construction, and rehabilitation of existing housing. The states would apply their own resources to the support of the program, in the form of state grants and loans, technical assistance, and even direct state assumption of certain aspects of these services, especially in housing. At the same time, the states would rely upon a new pattern of federal funding; the use of broad block grants, which are allocated to local projects through state systems for setting priorities. The key elements in building an effective resource allocation system are a strong state role in land use controls, regional and local planning assistance and the use of uniform substate districts for bringing state and local planning together.

Mr. GILLIGAN. If we—and by we, I refer to all of us in public office—if we are to make these national programs work, it is essential that we create a multilevel decisionmaking apparatus that recognizes the unique ability of each level of our government to make certain kinds of decisions which really cannot be made well at any other level, or in any other way.

Permit me to be more specific. At the highest level, it is clearly the responsibility of the Congress to establish the basic priorities of our American society—to determine how much of a share of our vast resources should be allocated to providing, for instance, decent housing for every American family in a decent neighborhood, in a clean, safe, and attractive community, how much should be allocated for the protection of the environment, how much should be allocated to all of the vital areas of our system.

In addition, it is clearly the right and the responsibility of the Congress to determine in what proportion the resources of the Federal Government should be distributed among the States within these broad program areas.

But beyond that, we, as Governors, believe that the State governments should be charged with the responsibility of determining how—within our own States—that share of Federal resources should be apportioned and applied to problem areas.

Our committee's survey—and the deliberations of the Governors at their annual meeting—made it clear that the Governors are more than willing to make sure that the multilevel decisionmaking apparatus of which I speak is extended further to the next level so that the officials of our local communities have the opportunities to help design the specific programs which will affect their communities and their people.

All of us practice this doctrine of the distribution of authority in the day-to-day conduct of our offices. All of us deal with the problems of incorporating local government in our decisions in virtually every area of State concern. None of us seeks the chance to carry out our programs in an arbitrary, or unilateral manner.

To emphasize this point, let me cite for you at this juncture the policy statements on Housing and Community Development unanimously adopted in June at the National Governors' Conference. The statement on housing reads as follows:

A new housing subsidy delivery system should be established of Federal bloc grants to the States for housing assistance, and State governments should be given the broadest possible discretion to review and approve local projects, and to allocate such money to a wide range of State and local housing programs.

The statement on community development is similar in philosophy and approach:

> Rational State community development policies cannot become a reality unless the States provide the link between various community programs. Congress and the administration should, therefore, adopt a program of community development assistance which assures that:
>
> (1) Federal funds for community development activities, both rural and urban, be in form of broad bloc grants to the States, allowing them to develop and operate their own State systems for setting and directly implementing community development priorities; and,
>
> (2) At the same time, each State effectively implement its system for establishing State goals, ordering priorities at State, regional, and local levels, and preparing the procedure for achieving these through a comprehensive community development effort.

As I stated earlier, these conclusions were reached on the basis of a very detailed questionnaire distributed to each Governor earlier this year. The questionnaire was intended to provide a comprehensive, up-to-date survey of the views of the Governors in the area of housing and community development. We used a survey because we were determined to develop effective means of using to the fullest advantage the experience and practical wisdom of State government in the formation of national policy and national legislation.

As I indicated nearly 80 percent of the Governors responded to the questionnaire, and the results indicate wide areas of agreement on the role of the States in community development, housing and planning and management.

The consensus was stronger than many of us might have anticipated. Regardless of party affiliation or size of State, the Governors were strongly in favor of a much more active State role in community development than is possible in the current categorical grant system, or in legislation, specifically S. 1743 and S. 1744, pending before the Senate.

The returns indicated that nearly all of the Governors believe it is logicial and proper to devise a system of Federal bloc grants which, together with State grants, could be allocated to local government through State-determined mechanisms for establishing priorities, and supervising the progress of programs.

How active a role do the Governors seek for State government?

The answer to this question is clearly implied in the questionnaire returns. When the Governors speak of a State system for setting priorities among local projects, they are clearly not talking about substituting State redtape for Federal redtape. They are not talking about State project review procedures applying merely to specialized functional criteria, which have frequently been the basis for Federal agency review under the categorical grant system.

What the Governors are talking about is a different kind of project review, one which takes place within the framework of a comprehensive planning process. The Governors envision a system in which State and local projects are blended into a comprehensive set of community development objectives.

Arriving at these objectives depends in turn upon the development of State planning capabilities at all levels: local government, sub-State district and statewide levels.

It is for this reason that the questionnaire replies gave virtually unanimous support to State delineation of sub-State districts, State

financial assistance to district planning agencies, and State review of district plans.

The States have been moving rapidly to develop these State regional local planning systems. As you know, the whole philosophy of State planning has changed remarkably during the past decade. We are now primarily concerned with program coordination and executive management.

The actions of the States to create regional mechanisms is equally impressive. Forty States have already developed some form of uniform substance districting system, and four more States are about to take such action.

In 288 of a total of 480 State districts, there currently exist institutional mechanisms for planning which are known by various names: Councils of Governments, Regional Planning Commissions, or Economic Development Districts. This represents remarkable structural change and progress for a movement that did not begin until the mid-1960's.

The development of adequate State district mechanisms is essential to the State review strategy for managing Federal bloc grants. It is also becoming the policy of an increasing number of public interest groups and governmental agencies.

At its 47th meeting on June 22–23, 1973, the Advisory Commission on Intergovernmental Relations issued a comprehensive set of recommendations concerning a uniform national policy which speaks to institutional development in districts and regions.

The Commission calls for greater State reliance on districts, with the "umbrella multijurisdictional organization" (UMJO) as the preferred regional organization. The Commission terms the State role in organizing substate districts "pivotal," and foresees that these umbrella organizations may eventually have a direct influence on State budgeting, and with the approval of the local government members, authority to provide public services on a regional basis.

Finally, the Commission calls for a gubernational veto over UMJO actions which are inconsistent with programs or the policies of neighboring organizations.

These recommendations are quite compatible with the National Governors' Conference policy statement on housing and community development because they stress an institutional mechanism that makes State allocation and project review systems workable.

The UMJO is the most significant institutional innovation of this century for creating State-local partnerships, and almost all States are strongly encouraging their establishment.

The proposed Better Communities Act, S. 1743, now before this committee, constitutes, in our judgment, a retreat from the new regionalism. Rather than strengthening the movement toward State-local partnerships and effective substate districts, agencies, this administration proposal would drive a wedge between the States and their urban communities.

Moreover, the methods proposed for distributing Federal funds are not even consistent with other Federal legislation and programs that encourage regionalism and an active State role in local planning and community development activities.

Let me give you some specific examples:

First, the Intergovernmental Cooperation Act of 1968, establishes what is now called A–95 review, a very effective device for coordinating State and Federal projects on a regional basis. All categorical grant applications for those programs which would be combined by this committee into a single bloc grant must presently receive A–95 review and comment. Why should not this procedure also apply to community development bloc grant expenditures?

Second, the 701 planning assistance program is moving legislatively and administratively toward the State allocation of funds to metropolitan agencies and large cities with State review of the local proposed planning programs. Why should the States review proposals for the planning activities that precede community development projects, but be denied a role in overseeing the projects themselves?

Third, S. 268, the Land-Use Planning and Assistance Act of 1973, recently passed by the Senate, calls upon the States to review land development of more than 50 lots located more than 10 miles from the boundaries of standard metropolitan statistical areas. It would appear inconsistent to require a State role in controlling the "second home," but not require that role where the original homes are located, in existing urban areas.

Fourth, under certain HUD programs, the mayor of a central city can review Federal grants involving all other local governments in the standard metropolitan statistical area.

If Chief Executive review and comment is a good idea for coordinating metropolitan community development activities through the mayors, why is it not a good idea for coordinating statewide community development action through the Governors?

I am convinced that the movement toward State-local partnerships in the community development planning process is a strong one. It will proceed under State auspices alone, regardless of Federal action. Already we can observe the new pattern showing up in the attempt of a number of States to reorient the delivery of specific public services.

For example, recently, the Minnesota Legislature passed the Regional Human Services Act and the Community Corrections Act. The former encourages the integration of human services on the basis of Minnesota's regional development districts, and the latter creates a local planning, State subsidy and review system for community-based corrections.

In our own State of Ohio, I can cite several examples of how State government involves the local community in important phases of the decisionmaking process. We have devised a new method of distributing State LEAA funds that is attracting national attention because of its strong emphasis on gaining local involvement in the grant process.

Our department of transportation has inaugurated at the district level a program that involves citizens in the earliest planning stages of highway projects—involving them at a point that permits changes to be made to meet local objections and desires. State funds for community care of the mentally ill and mentally retarded are now funneled through local boards, composed of local citizens who are familiar with local problems.

Obviously, this trend toward greater State-local partnerships will be accelerated if we are given consistent Federal policies in all areas of concern. This concept will be especially important in the area of

community development. Therefore, I would urge the committee to consider ways of strengthening this trend through the legislation currently before you.

Mr. Chairman, we as Governors believe it is unfortunate that so many decisions that directly affect our States and local communities are made by bureaucrats sitting in Washington hundreds and even thousands of miles way from the problems themselves. I know that many Members of Congress share that view.

While we recognize that it may be necessary to put into effect interim legislation in this area, we urge the Congress to provide for the kind of open discussion that will involve the Governors and mayors of this Nation in helping to devise a system that will permit local decisions to be made at the local level, while assuring that the will of Congress in setting national priorities will still be respected.

At our recent meeting, the new chairman of the National Governors' Conference, Governor Dan Evans of Washington, noted that he intended to seek closer working relationships with the National League of Cities and the National Conference of Mayors. I propose that similar working relationships be set up among those organizations, the Congress, and the administration. I stress the involvement of the administration because many Governors have been dismayed at what appears to be an attempt to revise the whole relationship between the States and the Federal Government without any consultation whatsoever with the Governors themselves.

Mr. Chairman, I urge the members of this committee to permit the Governors to sit down with you and with your staff members to devise practical, workable systems to convert the will of Congress into effective programs.

I would propose that our committee on rural and urban development be involved in such discussions, as well as our counterparts from the mayors' organizations. I believe you will find, Mr. Chairman, more agreement than you might have anticipated between the mayors and the Governors. And I believe, too, that we will find similar basic agreement on the part of the Congress, as well.

I sense the dawn of a new day in Federal-State-local relationships, Mr. Chairman, and I hope the members of this committee will help to bring that new day closer to reality.

Senator TAFT. Thank you very much, Governor. I must say that I am afraid I may have to cut this somewhat short because of commitments on the floor. But we are very happy to have your testimony.

I am particularly interested to see the emphasis that you put upon State participation in the community development area. As you have mentioned, you served for a good many years as a councilman in Cincinnati. Did you share those views at that time as to the direction which federalism ought to go?

Mr. GILLIGAN. I think, Mr. Chairman, that at the time of my service in the city council, we were experiencing, in Ohio, what was being experienced around most of the country. In most State legislatures, largely because of the apportionment systems in effect in those days with the strong emphasis on rural representation, there seemed to be a lack of responsiveness to urban problems. As a result, many of us became convinced that the only way we were going to get the kind of assistance we needed for the cities to meet the kinds of problems which

we were developing in the fifties and sixties was to go directly to Washington and we did so.

When I was here, however briefly, I still bought that concept. I am saying very candidly that a lot of my ideas in that area have changed and the States have changed.

I think the structural and procedural changes that have taken place in State government in the last 6 or 8 years have possibly been one of the most remarkable and one of the most least noticed revolutions—if you will—in American Government. And the whole thrust today, as I tried to say in these prepared comments, is in the direction of the decentralization of State government procedures to require involvement at the local level. I think that pattern has developed very successfully.

We are simply urging that in any legislation in the future, the Congress give recognition to these recent developments and strengthen them rather than undercut them or bypass them.

Senator TAFT. I particularly remember—I think it was as recently as 1968—that my distinguished colleague, the Senator from Minnesota, Hubert Humphrey, then a Presidential candidate, made a classic speech on new federalism in New Hampton, Conn. He described the new federalism as a building of a new conduct between the Federal Government and the metropolitan areas, directly; not going through the State as contrasted to the real revenue sharing issue being advocated at that point by the Republican candidate for the Presidency.

Mr. GILLIGAN. Even more remarkable now is that the Republican administration has picked up that position and attempted to implement it through the Better Communities Act.

Senator TAFT. It sort of shifts it around. I do not think it is very representative, one, because, frankly, the development of housing and planning of the Federal Government seems to have had somewhat of a monopoly in the past. We are now, through the revenue-sharing approach at least, facing up to the question of just what the relationship of the State and local government should be.

I, for one, would welcome any input that the Governors' Conference and their staff can add to our thinking here, and it is most welcome.

I do not think you will find, however, that all of the local government groups and conferences and so forth are in agreement with you on it. Do you?

Mr. GILLIGAN. I would not expect all of them to be. But I would say, sir, that there is a far broader basis of agreement between the mayors and the Governors or between State government and local government in these areas than one might readily anticipate.

Governor Dan Evans, the new chairman of the National Governors' Conference, has proposed that a steering committee be set up of the three members from the Governors' Conference and three from the Mayors' Conference, and three from the National Association of County officials.

Senator TAFT. I am sure we would be delighted to be taken off the hook, I might say, by the resolution of these questions between the Governors' and Mayors' Conferences and other such groups because we are sort of in the middle of it and want to do a little work.

Let me ask specifically about one other area. You have not made particular comment about the housing field insofar as rural housing is concerned. How do you see the rural areas of the States coming in there in any new legislation we might propose?

Mr. GILLIGAN. Well, as to the role of the States in rural areas, whether it be in community development or housing or public works of any kind, it is even more important because very frequently they lack the governmental structures and the kinds of sophisticated staff expertise which are required to deal with programs at this level.

So the committee, and ultimately the entire National Governors' Conference, approved a series of statements involving the whole field of services to rural areas, including housing, calling for new flexible programs allowing the State an adequate role in assigning priorities and giving support to the rural communities and getting housing programs of various kinds underway, new towns and so forth and so on. I think that is a very special area where the role of the States can be quite clearly seen as a fundamental aspect to the success of the program.

Senator TAFT. I find myself very much in agreement with you, Governor, to get the groups of State governments to take on more participation in community development.

Now, do you think the States would be willing to match for community funds if the communities in States were to raise the level of——

Mr. GILLIGAN. Our resources are not those of Federal Government; but in Ohio, we have already done that.

Senator TAFT. You are not so much in debt either, are you?

Mr. GILLIGAN. That is true, but we have already, in the budget just adopted, in the next biennium appropriated, for the first time, State funds for the support of planning operations and activities in the recently established regional planning areas.

We have, by Executive order, divided the State of Ohio into 11 service districts for State government. There used to be 366 overlapping administrative districts through which our State agencies provided services at the local level.

Senator TAFT. Does this tie in to the State legislative planning areas and so forth?

Mr. GILLIGAN. Well, the second tier has 15 regional planning agencies in areas where the planning groups are composed of local officials choosing their own staffs and so forth. We are putting up $2 million in the next biennium to help develop those planning districts, to help staff them, to help provide them with the kinds of expertise they need.

Now, there are going to be required some realinements of the originally established 701 planning agency units because they are concentrated in the metropolitan areas. They do not cover the whole State.

Senator TAFT. Sometimes they combine those problem areas. You have made some shifts in this recently, have you not?

Mr. GILLIGAN. We propose that; yes. The so-called NOACA group of nine counties in northeastern Ohio will be split into two regions: one of five and one of four counties; in effect, centering one around the city of Cleveland and its environs, and one around the Akron-Kent area.

But, again, the thrust is on local planning. We do not propose in any way to go into any of those areas and tell them what their problems are, never mind what the solutions to those problems are, but rather to help them coordinate their own activities.

Senator TAFT. Governor, in particular housing programs, of course, the speed of particular housing programs is somewhat slow. But as to particular housing programs, do you think we ought to earmark specific percentages for State housing agencies?

Mr. GILLIGAN. I have no fixed position on that at all. The money is not really going to be spent except in some very rare instances by any arm of the State government apparatus.

Senator TAFT. Isn't New York doing this right now?

Mr. GILLIGAN. New York has set up their own. It is unique, I believe, in the country.

Mr. Lincoln may have a comment on that, but they have their own State agency which has authority to move into a community and the authority assigned them under the laws of the State of New York, which supersedes the local authority, but I think that is unique. Is it not?

Mr. LINCOLN. Mr. Chairman, I believe the Governor is referring to the North State Urban Development Corporation which is one of three agencies which operates in New York and which is capable of producing housing and assorted other housing community facilities.

The UDC, as it is called, was able to move into communities in a very aggressive way and possessed the power of eminent domain and was able to override zoning and so on. The New York Legislature has recently stripped the agency of at least some of those powers.

I might just add to that, there are now housing finance agencies which typically do not have the kinds of development powers that the Urban Development Corporation in New York has.

There are now some 30 States which have created these sorts of mechanisms to involve themselves directly in the financing and production of subsidized housings.

Mr. GILLIGAN. We have such a mechanism in Ohio. But a parallel might be found in a couple of other fields. The great thrust in the care of the mentally ill and the mentally retarded in Ohio and most other States is to move away from the old State-operated, huge institutions out in the countryside—often referred to as warehouses for human beings—into community mental health and community mental retardation programs run by local community groups established under State law, funded by the State, and that is what we are doing.

The same is true of vocational education districts in Ohio. Sometimes, they are multidistricts. In other words, they cross school district lines. There is a need for vocational institutions, vocational training institutions, which no one district can maintain out of its own resources.

Again, we established, in State law, an authority to run that vocational education district program and the State funds its operation.

Now, it seems clear to me that if the States were to play a more active role in the field of housing, I would look to that sort of mechanism for the development of a housing program. The State would act primarily to funnel the money to the local level.

Senator TAFT. In fields of manpower training and education, do you feel you have either more opposition, perhaps, or either more of a split? I happen to be a ranking leader of the Manpower Committee, and, there, the Governors' feelings, as compared to the desires and aspirations of most of the local officials with whom we talked, seem to represent a very broad gulf indeed.

Mr. GILLIGAN. Again, the complaint from the Governors is that bypassing the States will not just hurt the feelings of the Governors but will render the programs ineffective in the long run.

We think that by using the federal system and conducting the programs at the three-tiered arrangement of the Federal Government, a far better job can be done, and I know that our own people in the field of manpower training and employment in Ohio feel that very strongly.

We have the problem of attempting to develop coordinated programs throughout the State rather than a multiplicity of self-encapsulated little programs running with complete disregard to what may be going on 20 miles away.

It is a matter of simple efficiency to do it on a larger regional basis.

Senator TAFT. Thank you very much, Governor. I think that completes any questions I have. I appreciate your being here. You have been very helpful.

Mr. GILLIGAN. Thank you, Mr. Chairman.

Senator TAFT. We have some communications that Senators Abourezk and Clark submitted for the record.

[The information follows:]

[Telegram]

JULY 7, 1973.

HON. JAMES ABOUREZK,
Senate Office Building,
Capitol Hill, Washington, D.C.

Please add my name to those supporting your Emergency Rural Housing Act. This legislation providing for county and regional housing authorities with consumer input for rural areas is desperately needed if we are to begin to have a real impact on this desperate situation.

WENDELL R. ANDERSON, *Governor.*

ROSEBUD HOUSING AUTHORITY,
Rosebud, S. Dak., July 11, 1973.

Senator JAMES ABOUREZK,
U.S. Senate,
Washington, D.C.

DEAR JIM: I have received information this date concerning your proposed legislation for the establishment of a Federal Rural Housing Agency. You have my whole-hearted support for this urgently needed piece of legislation which I understand will be entitled the Emergency Rural Housing Act of 1973.

Public housing legislation from its inception to the present time has placed too much emphasis on urban housing and development problems and too little on problem areas related to rural families.

I will be more than happy to supply documentation at my disposal to support your legislation and the need for such legislation.

Warmest regards,

ELMER D. WHITEPIPE,
Executive Director.

STATEMENT OF JIM H. HOPPER, EXECUTIVE DIRECTOR, IDAHO HOUSING AGENCY

LOW INCOME RURAL RENEWAL CONCEPT

The basic rural problem

Anyone who studies the rural housing condition of America rapidly discovers that the migration of families to urban centers has left a void in rural America.

The assumption of most urban-oriented studies of rural America is that nothing can be done beyond expansion of the present Farmers Home Administration, merely to broaden the interest credit subsidy program to encourage development of rural areas.

Pointedly, the lack of employment, the lack of persons with skills in construction and development, the availability of finance, and the lack of family services in rural areas are outlined as the problems.

While in fact partly correct, these "problems" are merely indicators that rural blight exists. Any basic concept of housing, whether rural or urban, must be considered in the context of political acceptance of the community and the people it is to serve. Rural states' most notable philosophy is one of free enterprise. Housing, on the other hand, is becoming more and more socialistic.

The real solution to the problem of housing rural America is finding the acceptable alternative between these two philosophies.

Private enterprise has not and cannot provide housing at the price and location the potential rural homeowner or tenant wishes and can afford. Total social support of any person or family is unacceptable in rural America, both to the free enterprise oriented producer and to the families supported by social programs.

Almost without exception, low income families living in rural America accept the difficulties, the bad housing, the lack of communication, the lack of media-advertised luxuries of living, and the social abuse of being a recipient of Federal and state support, in order to maintain their need for individualism and the personal freedom of living in the open countryside. But these families can and will work diligently and fruitfully to bring about a more comfortable life style, if the resources are made available.

Houses vs. homes

Before any discussion, plan, or design of a living situation in rural America can be considered, a vehicle to serve the constituency of housing must be developed. It must provide for profit-making, for land use and development, for job opportunities and employment, and the very real need of the homemaker to establish a comfortable nest for the rearing of a family, or comfort to the elderly. Each of these must be served, and the design for a house that is both acceptable and affordable has to be a joint venture acceptable and agreeable to the total community (economic, political and social).

Federal support to the lender encourages the availability of finance. Direct Federal subsidies to the homeowners, encourages participation of the rural poor. Nonprofit sponsorship *does* provide broad-based ownership. Public housing authorities *do* reduce rental costs to the low income family. Attempts to apply these techniques have succeeded to some degree, but have fallen short in stimulating and encouraging acceptable development in rural America.

It must be our first concern to reduce to the common denominator all known delivery systems in an attempt to identify the system that will develop and deliver housing units to rural America and provide input and takeout for the total constituency or rural housing.

Hence, the problem is reduced simply to finding a nonprofit-sponsored, self-help, local housing authority, tax-paying with Federal support, consumer-endorsed, financeable design with a relocatable and resalable shelter unit. The system is ordered to comply with the needs of the recipient and to conform to the ecological demands of life.

Applying this concept to the economics of scale in sparsely populated areas requires a broad-based, equity-developing system of ownership.

Housing rural America

The ownership, of necessity, must be a joint venture between the sponsoring organization and the borrower. Developing this into any known legal concept identifies the vehicle as a broad-based, cooperatively-owned utility corporation

empowered to sell tax-exempt revenue bonds and providing for a lease/purchase arrangement between the cooperative and the cooperative member-homeowner. The initial equity to insure the sale of the tax-exempt revenues may be developed through the faith in credit of the United States Government, the pledge of State or local governments or by private mortgage insurance.

In comparing this need with known vehicles, the closest identification is the rural electric cooperative associations that brought electricity to rural America. Careful analysis of the REA concept shows it to be not unlike a public housing authority. Yet its owners are the people it serves. It is financial because its financial statement is that of all its members. Direct low cost Federal loans have provided the capital, and Federal guarantees have provided the collateral the lender needs to make a safe loan. To provide housing in sparsely populated rural areas, the system must take into account the problems of financing, construction, and management, and do so with the minimal amount of primary and secondary cost.

The role of federally assisted housing programs in this concept is basically one of providing guarantees and collateral. The viable program of assistance would be the recognition of the rural cooperative as a local housing authority capable of applying for Federal funds to build public housing projects for elderly persons with little income and for low-income single family based structures. In this manner, the cooperative could provide for the full spectrum of housing needs in rural areas. Federal Public Housing objectives would have to be broadened to recognize the particular problems of rural housing and to allow for the maximum opportunity for project feasibility in sparsely populated areas.

Tax exemption and tax shelter of its indebtedness encourages lower cost financing. The participation of members will provide for employment and self-help. Its units are guaranteed resalable because first ownership is retained in the utility corporation. The corporation's assets will produce taxes to local governments, as in a cooperation agreement with the local housing authority. Federal guarantees of repayment or private mortgage insurance will provide marketable bonds for the indebtedness. A one-time write-down at construction with special arrangement funds would at the same time reduce the cost to a purchaser-tenant and do away completely with on-going built-up subsidies.

Alternatives of ownership

The cooperative member can lease from the corporation based upon a percentage of income and could acquire equity by any additional investment deposited against the obligation of the unit he occupies. The cooperative concept has already been proven acceptable in buying and selling farm products, as well as electricity. The shelter provided could be single-family, multi-family, or condominium. It can house single persons, families, the elderly, transient farm labor. It would provide additional social support to its members by the very nature of its activities. Within this delivery vehicle, the acceptable and affordable design of shelter for low income families would be broadened because the designs would be available to the entire population and would remove stigma of status.

Small declining areas

The use of new materials and technology will reduce considerably the cost of construction and maintenance while providing for the extension or discontinuation of service, and all allow a life style choice to the rural poor without appreciably affecting the financial statement of the total cooperative. Population centers that are declining, but project a need for ten to twenty years, can be served.

Present methods of financing require that such communities be by-passed, encouraging their decline and assuring that the population migrate. The one-time write-down will provide a direct control for land use planning and other orderly growth patterns that are now lacking in rural America. Manpower and Work Training Programs could additionally reduce the costs, and a redescription of "welfare" is contained within the productivity of the cooperative members.

Statement of Dick Clark, U.S. Senator From the State of Iowa

CONCERNS OF IOWA CITIES

Mr. Chairman, in the seven months of the freeze on housing and the cutbacks on community development programs, community leaders in Iowa have emphasized to me their great need for those programs which, in the recent past, have

enabled them to provide housing, improve water and sewer facilities, and renew decaying downtown areas.

Like community leaders throughout the country, they want funding that will enable them to finish projects already begun and develop new projects. They have expressed a great deal of concern about this interim period, and about the different revenue sharing proposals.

When the Administration's Better Communities proposal was announced in May, I wrote to the Mayors of a number of cities in Iowa to request their reaction to that specific proposal and the conceptof revenue sharing. The replies were very thorough and thoughtful.

In those letters and in conversations, many Iowa community officials have indicated that they support some kind of community development revenue sharing. But they have also mentioned serious doubts about a number of aspects of such a program, especially the allocation system. Their doubts, outlined in their letters, raise questions that should be considered when the allocation system is worked out.

Serious questions about the block grant approach itself have been raised by Frederick Stouder, Director of Planning and Development of Burlington, Iowa. I think his questions deserve serious consideration. Mr. Stouder believes that proposals for new methods of funding are obscuring the real problems faced by cities in this country. He says the cities deserve attention—priority attention—and I agree with him. His query is, I think, a valid one—where do the cities stand in the priorities of the United States? I believe that block grant funding may improve our over-all urban situation through its emphasis on local solutions to local problems. But such a result will be possible only if the Congress clearly demonstrates the conviction that the cities deserve priority attention, and I hope this Subcommittee will make that conviction clear in the legislation it reports.

I would like to request that the following letters be included in the hearing record along with my statement.

CITY OF BURLINGTON, IOWA,
May 10, 1973.

Senator RICHARD CLARK,
U.S. Senate,
Washington, D.C.

DEAR SENATOR CLARK: I would like to take this opportunity to briefly discuss two issues: (1) The future of community development programs as they relate to Special Revenue Sharing Proposals now and beyond July 1, 1974; (2) The current status of our Neighborhood Development Program, Central Burlington NDP Iowa A–9.

Mayor Wayne Hogberg of the City of Burlington, Iowa, recently sent a telegram to Congressman William J. Scherle who serves on the House Appropriations Committee and the Subcommittee on HUD Appropriations. The telegram read:

"The City of Burlington, Iowa, is very concerned about the future of housing and urban development programs during the transition to Special Revenue Sharing or whatever programs replace the existing one. Burlington is currently engaged in a half-million dollar yearly residential and commercial redevelopment program that could be severely jeopardized if the transition to urban development programs is not continuous. We urge that a continuing resolution be passed allowing urban development programs to continue with at least the current funding for the next fiscal year. Burlington is entering the second year of a 5 to 7 year HUD Neighborhood Development Program project involving some 4 to 5 million dollars in total funds. We urge you to support a resolution authorizing the continuation of the current programs".

We are very concerned about the future of federal programs. We are not satisfied that Special Revenue Sharing alone is the device that is needed. Additionally, we are concerned that during the transition to replacement programs, momentum and continuity could be lost—severely jeopardizing total community efforts and gains made in recent years and months.

As you are probably aware, intensive efforts have been underway for several years in Burlington toward residential and commercial redevelopment efforts utilizing the Neighborhood Development Program as a resource. The City Council, City Plan Commission, the Maple Hills Neighborhood Organization, the Central Business District Advisory Board, the Shopper's Advisory Group, and various committees of the above have spent considerable time and hours in developing the future plans and priorities for the future of Burlington.

Now we are being told that the city's priorities aren't to be taken into consideration under current HUD regulations relating to what has been called the "Hyde Memorandum". At a time when the federal government is supposedly shifting to increased emphasis at the local level, guidelines for doing so are eliminating local priorities arrived at through intensive citizen and public involvement—another HUD desire and criteria.

On April 1, the city submitted its Second Action Year Neighborhood Development Program to the HUD area office in Omaha, Nebraska. This application was the result of the planning efforts and accomplishments during the First Action Year. We expect that this application will be acted on shortly. Our program year coincides with the federal fiscal year and hence the application must be approved by June 30, so our program can enter and complete its second stage. Any help you could give us on this matter would be appreciated by all the citizens that have been involved.

If you wish additional information concerning our program, please do not hesitate to contact me. We will do everything necessary to insure the continuation of our Neighborhood Development Program and hope you can assist us in this task.

Sincerely,

FREDERICK C. STOUDER,
Director,
Department of Planning and Development.

CITY OF BURLINGTON, IOWA,
Burlington, Iowa, May 3, 1973.

Senator RICHARD CLARK,
Washington, D.C.

DEAR SENATOR CLARK: I would like to express my appreciation for the opportunity afforded me and the City of Burlington for allowing our views to be made known on the many issues facing our cities and towns. The meeting which you held on Friday, March 23, in Cedar Rapids, Iowa, to accomplish this purpose was an excellent one.

As I mentioned during that meeting, we are extremely concerned with the future of federal categorical grant problems for urban and rural areas. It is important to remember that these categorical grants were born as a response to the unmet needs in the nation. Urban and rural areas lacked (and continue to lack) the resources, technical and financial, to adequately identify and solve many of the complex issues confronting them. From the Housing Act of 1949 to the Lead Base Paint Poisoning Prevention Act of 1971, the federal government has been in the business, rightly I think, of pointing the finger at areas of need that can only be attended by a nationally coordinated source of financial and technical resources.

While it may be true in many instances that the "red tape" (which we hear is a reason for the elimination of such programs) from these programs have resulted in time consuming and seemingly wasteful efforts and actions by cities and towns, much of the "red tape" arose as a result of administrative needs. In many cases, problems and conflicts resulting in the management of the many categorical programs were not the result of too much or too little "red tape", but from inadequate management and leadership at all levels and unclear and contradictory goals and purposes at the national level. What has been most lacking in many of the programs has been a clear and continuous commitment from the federal government that the purposes of the legislation creating a program would be met and the commitment totally realized.

Again we are faced with that problem. Federal categorical grant programs and social action programs are being "terminated", "winded down" and "folded-in" to the new nebulous "special revenue". When President Nixon originally proposed the idea of revenue sharing in 1969 it was agreeded that general revenue sharing would be new money, not old money from federal programs. Now after less than one year of general sharing, federal categorical grant programs are being "terminated" in anticipation of "special revenue sharing". As one mayor has said, there's been "a gigantic double cross".

In the debate over revenue sharing and its formation, amount, and reason for being, one important element has been obscured. It doesn't matter what the answers are, if we are continually asking the wrong questions. And the question we should be asking is, "How with all the present resources, financial and technical, when we have fallen measurably short in both quantity and quality, of reaching our goals, can we be ending programs and reducing those resources"? To perhaps agree that needs have been going unmet is not to then agree that a reduced effort will be just, or will suffice. And to announce that the social and physical ills have been cured is a gross exaggeration and misconception of our current situation.

By statistical manipulation in recent years, the federal government has attempted to illustrate that poverty has been reduced, that housing construction goals are being met, and that in general, social expenditures in our federal budget are annually becoming a greater proportion of the total outlays.

Those assertions are distortions of fact. The income gaps in the United States are widening as several recent studies have pointed out, not narrowing. Many of those working are actually working poor—and many of those who need work have long since given-up and have been removed from the unemployment statistics. There are some indications that in the central areas of our large cities unemployment being as high as 35% not 5% as is the national average or the 10% figure often cited for our inner cities. And whatever happened to 3% unemployment rate as the full employment goal?

The Housing Goals established in 1949 and reaffirmed in various years including the 1968 Housing & Urban Development Act which created the Neighborhood Development Program have not been met. Statistical manipulations make it appear that we are reaching and in some cases surpassing, our yearly goals, but these published figures are now for the first time including mobile homes—a housing facility of yet undetermined adequacy. For example, most lending institutions will only allow mortgages of no more than ten years on mobile homes. In addition current federal housing policies and the moratorium on housing assistance programs only further the deterioration of the older neighborhoods of our cities, large and small.

The federal budget of over 265 billion dollars contain almost 200 billion dollars of funds that can not be tampered with such as social security funds, highway trust funds, interest, railroad pensions, etc. Human Resources Programs occupy a much smaller role in the federal budget than popularly thought. In a country that is number 1 in the world in military power we are 8th in doctor-patient ratio, 14th in literacy, 14th in infant mortality, and 25th in life expectancy. How strong are we? The inclusion of veterans benefits and social security payments as part of the human resource budget of the federal budget obscure the real facts that most of our human resource needs are being unattended.

The country today needs a clear, sound, and firm direction from Washington. Public servants all across the nation are becoming more confused, frustrated, and unsure in the administration of local programs because of unclear national efforts. We need strong national leadership to assist those at the state and local level in providing the leadership needed at these levels of government.

The City of Burlington has made gigantic strides in bringing its government closer to the citizens, in attempting to identify and solve the many complex physical and social problems that face any local community. But like other communities, we can't do it alone without national financial assistance and a national total commitment. We ask your support in assisting us in continuing our efforts in housing, redevelopment, and total community wide development both social and physical. We are concerned that much of the current legislation being introduced under the guise of revenue sharing would not provide the resources necessary. If special revenue sharing means a reduced national effort, then we are against it.

Again, I wish to thank you for the opportunity you provided us in Cedar Rapids, and look forward to meeting with you in the future on these and other matters of mutual concern.

Sincerely,

FREDERICK C. STOUDER,
Director,
Department of Planning and Development.

CITY OF CEDAR RAPIDS, IOWA,
May 25, 1973.

[Memorandum]

To: Mayor Canney, Comm. Phillips, Comm. Schaefer, Comm. Oberthien, Comm. Reinis, and Don Salyer.
From: Thomas L. Aller, Intergovernmental Coordinator.
Re: Analysis of a Better Communities Act (B.C.A.) "The Allocation Formula."

In an effort to provide a review of this most important legislation, I have assembled the following information. It should be remembered that this bill is the President's bill. Congress most certainly will make major changes, but these are not reflected in this memorandum.

We are interested in those commitments the federal government has made to Cedar Rapids during fiscal years 1968–1972 (inclusive). This means grant awards between July 1, 1967 through June 30, 1972.

Before proceding, it may prove helpful to indicate those grant awards in question.

I. Programs consolidated under B.C.A. in which Cedar Rapids has participated:
   A. Urban Renewal
   B. Neighborhood Development Programs
   C. Basic Water and Sewer Facilities
   D. Open Space
   E. Rehabilitation Loans.

II. Programs consolidated in which Cedar Rapids has *not* participated in:
   A. Model Cities
   B. Neighborhood Facilities
   C. Historic Preservation.
   D. Public Facilities Loans.

The following information concerns our grant commitments and dates of award. Later in this memorandum, the significance of these dates and figures will become evident.

A. Urban Renewal (Federal Share):
   R–9—October 1965, amended June 26, 1969 and August 6, 1969.
   Federal Grant: $1,642,226.
   R–13—June 22, 1966, amended July 2, 1970.
   Federal Grant: $10,471,661.

B. NDP (All dates, April 1 of each year):
   1st Year: $1,000,000.
   2nd Year: 900,000.
   3rd Year: 944,732.

C. Basic Water and Sewer:
   Vinton Ditch—April, 1971.
   Federal Share: $895,000.

D. Open Space:
   OSA–7—November 22, 1967.
   Federal Share: $83,050.
   OSA–21—May 13, 1968.
   Federal Share: $30,426.83.
   OSA–24—September 25, 1967.
   Federal Share: $15,055.72.
   OSA–34—June 14, 1968.
   Federal Share: $367,000.
   OSA–40—September, 1968.
   Federal Share: $17,375.
   OSA–44—June 6, 1969.
   Federal Share: $232,282.
   OSA–51—June 23, 1971.
   Federal Share: $7,550.

E. Rehabilitation Loans (NDP)
   1st and 2nd Year: $34,500.
   3rd Year: 9,600.

Under the terms of the BCA, Cedar Rapids would receive $1,348,000.00 plus $70,000.00 SMSA Discretionary funds, for a 1st year total of $1,418,000.00. This is supposed to represent our "average" for commitments for FY 1968–72. A careful review indicates the procedure used to calculate this figure to be grossly unfair.

The following explanation demonstrates how the federal government computed this figure. Averages are arrived at by adding all awards, dividing by total months of all projects (monthly average) and multiplying resultant by 12, to get a yearly average. These figures are close approximations. Certain amendments and extensions explain why my figures are not identical to the federal figures. My purpose here is to demonstrate how our allocation figure was calculated.

1. NDP (add years 1, 2, 3):	
$2,844,782 divided by 36×12	$948,260.64
2. Open space:	
$761,739.55 divided by 120×12	76,173.96
3. Rehabilitation loans:	
$44,100 divided by 36×12	14,700.00
4. Water and sewer:	
$895,000 divided by 30×12	383,568.00
Total—Average yearly	1,422,702.60

My area of greatest concern here is our two Urban Renewal Projects, R–9, R–13. As stated, the "Better Communities Act" stipulates, for the purpose of determining each city's share, that only commitments during FY 1968–1972, may be counted. If this is so, neither of our Urban Renewal Projects would be included since R–9 was approved October 15, 1965 and R–13 was approved June 22, 1966. This is grossly unfair.

If our Urban Renewal monies are not counted, any dollar representation alloted Cedar Rapids, excluding these commitments would *not* truly reflect our community development activities. Any legislation that would *not* take this into account would not be in the best interest of Cedar Rapids, let alone *not* being fair at all. The calculations below represent what I consider accurate *yearly* averages in these areas.

I. Project Iowa R–9.
Grant amount: $1,642,226.
Yearly average: $1,642,226.00 divided by 60 months×12=$328,445.20/year.
Project Iowa R–13.
Grant amount: $10,471,661.
Yearly average: $10,471,661.00 divided by 60×12=$2,094,332.20.
Yearly urban renewal average:

R–9	$328,445.20
R–13	2,094,332.20
Total	2,422,777.40

So one can easily see, that our yearly average in community development activities is really not represented in the $1.4 million dollar allocation. Rather it should be in the neighborhood of:

All consolidated programs	$1,422,702.60
Urban renewal (R–9, R–13)	2,422,777.40
Total	3,845,480.00

One can readily see the theory behind the Administration's bill. Since most Urban Renewal Projects were approved prior to FY 1968, literally hundreds of millions would be saved by the government by excluding all U.S. cities with Urban Renewal projects approved prior to July 1, 1967. In a word, this is "unfair."

I will be conveying to you in a separate memorandum, an analysis of the bill itself, probably later next week.

CITY OF CEDAR RAPIDS, IOWA
June 15, 1973.

Senator DICK CLARK,
Washington, D.C.

DEAR SENATOR CLARK: Pursuant to your letter of May 11, 1973, addressed to Mayor Canney, concerning his evaluation of "A Better Communities Act," (BCA)

I am enclosing the following information. I have attempted to review this legislation from Cedar Rapids' standpoint.

Enclosed you will find a copy of a memorandum prepared for the Mayor and City Council which attempts to explain the allocation formula contained in the BCA. Hopefully, this will answer any questions concerning adequate funding levels. It must be remembered, that the exclusion of Urban Renewal projects also excludes the City's share of the total project costs.

With reference to the bill itself, there are several areas of concern:

I. SECTION V: STATEMENT OF COMMUNITY OBJECTIVES

Conclusion: The concept of a "strategy statement" or expanded Annual Arrangement Agreement is fine. The problems arise when we begin to examine the processes being utilized.

(*a*). What will be the role of the HUD area office in reviewing this community statement?

(*b*) What rules and regulations will area HUD be allowed to establish?

(*c*) What "levers" will the HUD area office retain in order to insure that local communities will seek to further certain "national" objectives?

(*d*) Will there be any "percentage" ratios that HUD will impose which may restrict local decision makers in the expenditures of their monies? If the "freedom" of the purse is at all akin to the "General Revenue Sharing" legislation, then local policy makers *are* restricted in their choices of expenditures.

(*e*) How will the A–95 requirements be altered, if any? (Especially in light of HUD's emphasis on multi-county regional planning commissions)

(f) Will local communities have an opportunity to comment, prior to implementation, on any new rules and regulations, which HUD may establish? It is crucial that we do.

(*g*) Will HUD area offices be given authority to seek "modified" community statements, prior to granting their approval? This could *severely* restrict local policy making, if HUD can alter local planning processes, simply to insure we spend our money as *they* see fit. It would defeat the whole purpose of consolidation if this proves true.

(*h*) Will adequate provisions be written so cities will have an opportunity to revise their statements if HUD so dictates, so that program continuity may be maintained?

The whole problem with Section V, is that it is too ambiguous and leaves far too much discretion to the Secretary of HUD. If we are going to switch processes, then it is crucial we know the rules before we start. Otherwise, administration will consume a disproportionate cost of community development activities and efficiency will be restricted.

II. SECTION VII: ALLOCATION OF MONIES

The attached memo should clarify our reservations with this section. Although we are not a Model City, I would imagine Des Moines is very upset with this section as it would severely jeopardize the flexibility they would have in spending their money.

(*a*) Subsection F: There must be provisions to challenge the Secretary's calculations of respective allocations. As it is written, there would be none. This could become very important as sub-sections C–E apply. The left over hold-harmless monies would become extremely significant.

It is obvious that Cedar Rapids can only lose money under the provisions of this bill. Certainly, to say communities will receive monies under this bill equal to that received under categorical programs, is not accurate.

The other area of major concern to us, is in the area of housing. As I understand, the housing legislation will not be introduced until fall. Now, how can cities develop community plans without assurances for housing programs? The two areas need to be closely coordinated. For example, if we plan for a certain neighborhood parks, streets, water, sewer, etc., but no housing units, what good is the plan? Secondly, if the housing legislation includes the provision that money go to the States for distribution as indicated, cities are in even more trouble. What would be created would be a political bottleneck. Instead of cities meeting their housing demands, all that major cities would get done would be to see which one could exact the most pressure on the Governor to see that more money would come to that city. Does one call this better planning?

III. SECTION X: DAVIS–BACON

This section has tremendous significance. At the present, Davis-Bacon applies to categorical programs where projects are shared on a 50–50, ⅔–⅓, 75–25 ratio. Also General Revenue Sharing regulations set the minimum at 25%. This would remove any minimum. It also extends Davis-Bacon to residential developments over 12 family units. The legislation needs to be clarified to define if this section is speaking of public or private or both developmental sectors. This could be a very costly provision to cities.

IV. SECTION XIV: RELOCATION PAYMENTS

This section eliminates relocation payments to this displaced by C.D. activities. This area should not be eliminated.

Hopefully, Congress will study this bill and make substantial changes. Certainly the bloc grant approach is acceptable with us. The areas I have noted need further review and clarification. I would be happy to discuss these points in more detail with your staff at any time. Cities cannot afford to have this important legislation passed without helping shape it to best meet their needs.

If I can be of further assistance, please contact me.

Sincerely,

THOMAS L. ALLER,
Intergovernmental Coordinator.

CITY OF DAVENPORT, IOWA,
June 25, 1973.

Senator DICK CLARK,
Senate Office Building, Washington, D.C.

This is in response to your letter requesting feedback on the adequacy of proposed funding under the Better Communities Act, now before Congress. I requested an evaluation from our Department of Community Development and received the following statement from the Director, Gene Johnson.

"The $902,000 indicated for Davenport on a yearly basis appears to be higher than the average annual funding that we have received from these types of programs in the past. Our average, it might be pointed out, is extremely low based on the fact that Davenport was so late involving itself with this sort of Federal Assistance. I think we could safely say that under no circumstances is this amount of money adequate to meet the needs of the citizens of Davenport and those programs that it is intended to replace. I might point out that even though this amount is more than the previous five year average that we have received, it is probably less than the amount that was received in the year immediately preceding and unquestionably less than the amount that had been applied for.

"Even though there appears to be benefits in the Better Communities Revenue Sharing Act, namely the elimination of long application process and more local control over the types of activities on which the funds will be spent, I believe it is extremely unfortunate that our "Hold Harmless" amount is as low as it is. I believe that this matter should be protested to the Senators and Congressman Mezvinsky, citing the case that the City of Davenport and its citizens should not be penalized because we had not previously participated in Federal programs to the extent of many other communities."

Mr. Johnson's statement has my concurrence and approval and I can't state strongly enough the feeling that present day Davenporters should not be penalized for the failure of the City to recognize and take advantage of the opportunities in Federal funding programs in the earlier years. In recent years Davenport has become a City which acknowledges its problems and is trying to do what is necessary to solve those problems. Under such circumstances, in fact, we say that Davenport has an excellent logical reason for requesting a disproportionally large share of the Better Communities Act money in order to catch up with long overdue needs.

We appreciate greatly the initiative taken by you to get our response and opinion and hope that constructive amendments to the Act will be possible. If there is anything more we can do to assist, we will be most happy, and once again I thank you for your assistance.

Sincerely yours,

KATHRYN KIRSCHBAUM,
Mayor.

Senator TAFT. The next witness will be the Honorable Gladys Noon Spellman, president of the National Association of Counties. Mrs. Spellman, I am very glad to have you here. You may proceed with any prepared statement you may have.

STATEMENT OF GLADYS NOON SPELLMAN, COUNCILWOMAN, PRINCE GEORGES COUNTY, MD., PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES, ACCOMPANIED BY JOHN C. MURPHY, LEGISLATIVE REPRESENTATIVE

Mrs. SPELLMAN. Thank you, Mr. Chairman. I am Gladys Spellman, president of the National Association of Counties. I am also a member of the County Council of Prince Georges County, Md.

I would like to introduce Mr. John C. Murphy, who is a legislative representative.

Senator TAFT. I wonder if you might try to talk into the microphone just a little bit more or perhaps wait until the room quiets down.

Mrs. SPELLMAN. Is that better?

Senator TAFT. Fine.

Mrs. SPELLMAN. I was just introducing Mr. John C. Murphy, our legislative representative for NACo, which is the affectionate name for the National Association of Counties.

The National Association of Counties represents nearly 1,200 county governments which together comprise 70 percent of the Nation's population. As such, counties—and particularly urban counties—have a tremendous stake in housing and community development programs which vitally affect our residents.

We wish to commend the chairman and members of the subcommittee for proceeding with these hearings on community development legislation despite the fact that proposals from the administration concerning the federally subsidized housing programs will not be forthcoming until early September.

Surely, we agree with you that there is much that can be done in shaping meaningful community development legislation prior to September. Of course, in saying this, we nonetheless concur with the distinguished chairman's remarks—that is, Senator Sparkman—of May 8 upon introduction of S. 1743 and S. 1744, that new community development legislation cannot be enacted without corresponding housing subsidy programs.

The subcommittee has before it two bills: S. 1743, the administration's proposed Better Communities Act, and S. 1744, the Community Development Assistance Act of 1973.

These bills are designed to consolidate a number of categorical programs now administered by the Department of Housing and Urban Development into a single program providing flexibility and certainty of funding for local communities. While both bills are similar in principle, their particular provisions vary, in some cases considerably.

I would like to comment briefly on the concept of program consolidation evidenced in both bills. I need not recite the frustration we, as local elected officials, have encountered with the categorical programs which are filled with their attendant redtape and a lack of flexibility.

Local elected officials need a sufficient amount of flexibility and certainty of funding from year to year to enable them to adapt both Federal and local resources to fit changing and varied local conditions.

In other words, we at the local level—accountable as we are to our constituents—must have the opportunity to achieve maximum local priority-setting and decisionmaking.

NACo, therefore, supports the provision within the Better Communities Act which consolidates all seven HUD categorical programs—urban renewal, model cities, water and sewer, open space, neighborhood facilities, rehabilitation loans, and public facility loans.

However, by adding the model cities and public facility loan programs, which were not in last year's Senate bill, to the consolidation, we believe that the authorization ought to be increased above the $2.3 billion level for fiscal year 1975 proposed by the administration. A fiscal year 1975 program level of $3 billion, and $3.5 billion for fiscal year 1976, would seem to be the very minimum that would be needed.

NACo also supports the provisions in the Better Communities Act authorizing formula as well as hold-harmless treatment for urban counties, defined as counties within a metropolitan area having a population of 200,000 or more exclusive of the population of metropolitan cities therein.

The Better Communities Act, as did the House Banking and Currency Committee during the 92d Congress, H.R. 16704, recognizes the relative need for community development funds by a select number of urban counties.

This recognition results from a determination that the problems which such funds seek to solve are not solely confined to metropolitan cities, nor are they the sole responsibility of such cities to solve.

The 200,000 base population figure for urban counties was chosen since it seemed to equate the criteria of need, powers, and the expectation of using formula funds of such counties vis-a-vis metropolitan cities. In addition, for those urban counties which lacked past program experience, a formula share of funds carrying with it flexibility and certainty was felt to provide the necessary incentive to get these counties in a position to address their needs.

The critics of including urban counties in the formula distribution of community development funds have cited the fact that it would give funds to some counties which do not carry out community development activities, such as those in New England.

NACo certainly has no objection to excluding the seven counties in New England from a formula share of funds. There would be three in Massachusetts, three in Connecticut, and one in Rhode Island. Thus, we should be speaking of 85 rather than 93 urban counties.

Objections continue to be raised to what appear to be very dramatic increases afforded urban counties at the expense of metropolitan cities under the Better Communities Act proposal. One must remember, however, that the needs formula contained in the bill is applied uniformly to both metropolitan cities and urban counties and thus directs the money to those areas based on their need. The adequacy of the needs factors is another question.

NACo seeks only a fair share of community development funds for the designated urban counties. If Congress determines to build hold-

harmless as an element into the formula, as was done in last year's Senate and House bills, we certainly would not object.

It is interesting that in comparing the individual amounts urban counties would receive under the Better Communities Act versus last year's House bill, 37 would lose money, 37 would gain money, and 13 are relatively unchanged.

It is also interesting to note the difference in past program levels calculated for the Better Communities Act versus the hold-harmless under the House bill. Granted, the base years are different and the better communities proposal includes model cities and water and sewer.

Under BCA, however, 33 counties show zero prior program experience, while only 21 do under the House bill. In any event, HUD's figures in this case are questionable and NACo is in the process of attempting to verify them.

Another question arises as to the treatment of special districts within cities and counties relative to hold-harmless. We recommend that the legislation spell out that such past program experience for hold-harmless purposes be appropriately credited to metropolitan cities and/or urban counties, based on whom the special district is responsible to in budget matters.

NACo also recommends that the legislation authorize a combination of jurisdictions on the local level—cities and counties—to join together in common application to meet the population base, thereby qualifying for a formula share of funds.

This provision was included in last year's House version but is not in either S. 1743 or S. 1744. Many cities and counties fall just short of the population base, but nonetheless have significant community development needs which are best handled by the certainty of a formula share of funds.

NACo does not support the lack of a substantive application requirement as proposed in the Better Communities Act. It is our position that the purpose of community development legislation is to address national goals such as the elimination of slums and blights and insuring an adequate supply of housing for all segments of the community, including low- and moderate-income housing.

In order to insure that these goals are met, cities and counties should be required to submit an application which comprehensively identifies community development needs and objectives as well as a specific action schedule to meet those needs and objectives.

Both the Senate and House versions of last year's legislation included such a provision.

HUD, of course, should not be permitted to impose excessive regulations and redtape in approving applications, and HUD should be required to complete the processing of each application within 90 days of its receipt.

Now, we differ with the speaker just before us NACo does not support the role imposed on the States by the Better Communities Act, that of exercising control over the discretionary funds not earmarked for metropolitan cities or urban counties.

At issue is whether the States, who have shown little interest or activity in community development in the past, should now be given the opportunity to exercise the right of approval or disapproval over community development applications from nonmetropolitan cities and nonurban counties.

It has been suggested that the States already have a role in community development since it is they, through State statutes, who determine the extent of power and authority through State statute which local jurisdictions may exercise.

The role of the States, according to this view, should be to determine if the powers granted to local jurisdictions are, in fact, sufficient or appropriate to meet today's urban needs.

Under last year's Senate and House bills, the existing Federal/local relationship for all communities would have been maintained. The States, like nonmetropolitan cities and nonurban counties, would have been eligible for a share of discretionary funds. We think this, together with incentives to the States in determining the adequacy of local authorities for community development, is the appropriate role for the States, and the legislation should so specify.

S. 1744 recognizes that there is a definite relationship between the federally subsidized housing programs and local community development programs.

This is manifested in its requirement that the Secretary of HUD, at the time he approves a community development application, reserves an appropriate amount of subsidized housing funds to meet the housing needs specified in the application.

NACo supports this linkage of subsidized housing funds to community development and views it as critical.

Subsidized housing is necessary both from the point of view of being able to relocate families and from the point of view of being able to sell land acquired through community development.

Under no circumstances should community development legislation be enacted unless there are accompanying and complementary provisions for subsidized housing programs.

An integral part of the community development process is the ability to plan, implement and manage a comprehensive program. New community development legislation will call upon counties and cities to exercise new responsibilities in priority setting and decisionmaking.

Their ability to exercise this new responsibility is directly related to funds available for building their planning and management capability.

Any rewrite of the 701 comprehensive planning and management program must include as a priority in the distribution of funds the needs of urban counties and metropolitan cities.

Furthermore, such funds should go directly to those counties and cities rather than through the States. New community development legislation thus ought to provide complementary planning and management provisions.

Allow me for a moment, Mr. Chairman, to particularize the impact of community development legislation in my county. Prince Georges County.

Prince Georges County, located on the eastern periphery of the District of Columbia—as a matter of fact, the District of Columbia was cut out of our county when the Nation's Capitol was formed—is a mix of urban, suburban, and rural areas covering approximately 486 square miles with a population of approximately 750,000 people.

The county level of government in Maryland is the basic unit of local government, functioning just like a city and possessing the full

range of powers and services. As a matter of fact, our counties are even more than cities. They have city and county functions combined.

Prince Georges County is deeply involved in all facets of community development activities. During the past 3 years, the county has been conducting a community renewal program study designed to develop strategies to redevelop deteriorating areas of the county.

As a result of this study, the county is prepared to under take neighborhood development program projects in areas which have been identified in the study.

In addition to this, Prince Georges County is involved in federally assisted code enforcement (FACE), water and sewer, Model Cities, and open space programs.

During fiscal year 1972, the county received the following federal assistances from HUD, moneys for community renewal program, FACE, Model Cities, water and sewer, open space, totaling $20,710,731.

During fiscal year 1973, Prince Georges County projects its need for Federal assistance as the following: neighborhood development program, FACE, open space—amounting to $4,860,000.

In fiscal 1974, were the HUD programs not terminated, the County would anticipate Federal assistance of approximately $6.5 million for the above projects.

Our needs are too great and our local resources too scarce to proceed without Federal financial assistance. What we need is new community development legislation enacted in sufficient time for its implementation on July 1, 1974.

In summary, Mr. Chairman, we once again commend the subcommittee for moving with dispatch on this important legislation.

We, in NACo, are confident that legislation embodying the recommendations as set forth in this testimony will prove to be of great benefit to us on the local level. With your help, we may begin the difficult but necessary task of solving our pressing community development problems.

Senator TAFT. Thank you very much, Mrs. Spellman. We appreciate your testimony. I am sure you understand the committee respects the work on both bills, S. 1743 and S. 1744, and has tried to develop a fair formula for community development funds.

The final product will probably be a mix then between HUD's Better Communities Act in 1973, and the Senate's bills last year. We do appreciate having your views on this.

At one point, you mentioned a hold-harmless approach insofar as urban counties and said that NACo supports a hold-harmless treatment for urban counties. Why do you think that that hold-harmless approach to the problem is justified?

Mrs. SPELLMAN. Well, a good many of the cities and counties have been very much involved in these programs already.

Senator TAFT. But there have not been any hold-harmless provisions in our Federal housing programs in the past, have there?

Mrs. SPELLMAN. No; I believe not, not in housing.

Senator TAFT. In effect, the whole concept of Model Cities is that it is a 5-year project and runs out.

Mrs. SPELLMAN. There is still so much to be done, so much in the way of planning.

Senator TAFT. I realize that. But will we meet the needs by adopting a hold-harmless approach?

It seems to me that this would freeze us into patterns that do not necessarily relate to the needs of the particular communities——

Mrs. SPELLMAN. Needs——

Senator TAFT [continuing]. As to relative priorities we ought to be setting.

Mrs. SPELLMAN. You are probably right.

Senator TAFT. I do not believe I have any other questions at this time. I appreciate it. Thank you very much for being with us.

Mrs. SPELLMAN. Thank you so much.

Senator TAFT. Unfortunately, I am going to have to recess these hearings at this point because I am already overdue on the floor on a matter that is proceeding there.

If the witnesses still listed would wait for a few minutes to see if we can get the meeting started again, fine. Thank you. The meeting will stand in recess.

[Complete statement of Mrs. Spellman follows:]

STATEMENT OF GLADYS NOON SPELLMAN, COUNCILWOMAN, PRINCE GEORGES COUNTY, MD., AND PRESIDENT OF THE NATIONAL ASSOCIATION OF COUNTIES

Mr. Chairman and Members of the Subcommittee: My name is Gladys Noon Spellman, and I am a member of the County Council of Prince Georges County, Maryland. I am also President of the National Association of Counties. It pleases me to be here today to present the views of the National Association of Counties (NACo) as well as Prince Georges County on pending community development legislation. Accompanying me today is John C. Murphy, Legislative Representative for the National Association of Counties.

The National Association of Counties represents nearly 1200 county governments which together comprise 70 percent of the nation's population. As such, counties, and particularly urban counties, have a tremendous stake in housing and community development programs which vitally affect our residents.

We wish to commend the Chairman and members of the Subcommittee for proceeding with hearings on community development legislation despite the fact that proposals from the Administration concerning the federally subsidized housing programs will not be forthcoming until early September. Surely there is much that can be done in shaping meaningful community development legislation prior to September. Of course, in saying this, we nonetheless concur with the distinguished Chairman's remarks of May 8 upon introduction of S. 1743 and S. 1744, that new community development legislation cannot be enacted without corresponding housing subsidy programs.

The Subcommittee has before it two bills—S. 1743, the Administration's proposed "Better Communities Act," and S. 1744, the "Community Development Assistance Act of 1973." These bills are designed to consolidate a number of categorical programs now administered by the Department of Housing and Urban Development into a single program providing flexibility and certainty of funding for local communities. While both bills are similar in principle, their particular provisions vary, in some cases considerably.

I would like to comment briefly on the concept of community development program consolidation and then offer a series of recommendations on behalf of NACo designed to strengthen the bills.

PROGRAM CONSOLIDATION

NACo has long supported the concept of program consolidation evidenced in both bills. I need not recite the frustration we as local elected officials have encountered with the categorical programs, filled with their attendant red tape and a lack of flexibility. Local elected officials need a sufficient amount of flexibility and certainty of funding from year to year to enable them to adapt both federal and local resources to fit changing and varied local conditions. In other words, we at the local level, accountable as we are to our constituents, must have the opportunity to achieve maximum local priority-setting and decision-making.

NACo therefore supports the provision within the Better Communities Act which consolidates all seven HUD categorical programs—urban renewal, model cities, water and sewer, open space, neighborhood facilities, rehabilitation loans

and public facility loans. However, by adding the Model Cities and Public Facility Loan programs (which were not in last year's Senate bill) to the consolidation, we believe that the authorization ought to be increased above the $2.3 billion level for Fiscal 1975 proposed by the Administration. A Fiscal 1975 program level of $3 billion, and $3.5 billion for Fiscal 1976, would seem to be the very minimum needed.

URBAN COUNTIES

NACo also supports the provisions in the Better Communities Act authorizing formula as well as hold-harmless treatment for urban counties, defined as counties within a metropolitan area having a population of 200,000 or more exclusive of the population of metropolitan cities therein. The Better Communities Act, as did the House Banking and Currency Committee during the 92nd Congress (H.R. 16704), recognizes the relative need for community development funds by a select number of urban counties. This recognition results from a determination that the problems which such funds seek to solve are not solely confined to metropolitan cities, nor are they the sole responsibility of such cities to solve.

The 200,000 base population figure for urban counties was chosen since it seemed to equate the criteria of need, powers, and expectation of using formula funds of such counties vis-a-vis metropolitan cities. In addition, for those urban counties which lacked past program experience, a formula share of funds carrying with it flexibility and certainty was felt to provide the necessary incentive to get these counties in a position to address their needs.

Critics of including urban counties in the formula distribution of community development funds have cited the fact that it would give funds to some counties which do not carry out community development activities, such as those in New England. NACo has no objection to excluding the seven counties in New England from a formula share of funds—3 in Massachusetts, 3 in Connecticut, and one in Rhode Island. Thus, we should be speaking of 85 rather than 93 urban counties.

FORMULA

Objections continue to be raised to what appear to be very dramatic increases afforded urban counties at the expense of metropolitan cities under the Better Communities Act proposal. One must remember, however, that the needs formula contained in the bill is applied uniformly to both metropolitan cities and urban counties and thus directs the money to those areas based on their need. The adequacy of the needs factors is another question.

NACo seeks only a fair share of community development funds for the designated urban counties. If Congress determines to build hold harmless as an element into the formula, as was done in last year's Senate and House bills, we would not object. It is interesting that in comparing the individual amounts urban counties would receive under the Better Communities Act versus last year's House bill, 37 lose money, 37 gain money and 13 are relatively unchanged. It is also interesting to note the difference in past program levels calculated for the Better Communities Act versus the hold harmless under the House bill. Granted, the base years are different and the Better Communities proposal includes Model Cities and Water and Sewer. Under BCA, however, 33 counties show zero prior program experience while only 21 do under the House bill. In any event, HUD's figures in this case are questionable and NACo is in the process of attempting to verify them.

Another question arises as to the treatment of special districts within cities and counties relative to hold harmless. We recommend that the legislation spell out that such past program experience for hold harmless purposes be appropriately credited to metropolitan cities and/or urban counties, based on whom the special district is responsible to, budgetwise.

JOINT APPLICATIONS

NACo also recommends that the legislation authorize a combination of jurisdictions on the local level—cities and counties—to join together in common application to meet the population base, thereby qualifying for a formula share of funds. This provision was included in last year's House version but is not in either S. 1743 or S. 1744. Many cities and counties fall just short of the population base but nonetheless have significant community development needs which are best handled by the certainty of a formula share of funds.

APPLICATION REQUIREMENT

NACo does not support the lack of a substantive application requirement as proposed in the Better Communities Act. It is our position that the purpose of community development legislation is to address national goals such as the elimination of slums and blight and insuring an adequate supply of housing for all segments of the community, including low and moderate income housing. In order to insure that these goals are met, cities and counties should be required to submit an application which comprehensively identifies community development needs and objectives as well as a specific action schedule to meet those needs and objectives. Both the Senate and House versions of last year's legislation included such a provision.

HUD, of course, should not be permitted to impose excessive regulations and red tape in approving applications, and it should be required to complete the processing of each application within 90 days of its receipt.

STATE ROLE

NACo does not support the role imposed on the states by the Better Communities Act, that of exercising control over the discretionary funds not earmarked for metropolitan cities or urban counties. At issue is whether the states, who have shown little interest or activity in community development in the past, should now be given the opportunity to exercise the right of approval or disapproval over community development applications from non-metropolitan cities and non-urban counties.

It has been suggested that the states already have a role in community development since it is they who determine the extent of power and authority through state statute which local jurisdictions may exercise. The role of the states, according to this view, should be to determine if the powers granted to local jurisdictions are in fact sufficient or appropriate to meet today's urban needs.

Under last year's Senate and House bills, the existing federal/local relationship for all communities would have been maintained. The states, like non-metropolitan cities and non-urban counties, would have been eligible for a share of discretionary funds. We think this, together with incentives to the states in determining the adequacy of local authorities for communities development, is the appropriate role for the states, and the legislation should so specify.

HOUSING LINKAGE

S. 1744 recognizes that there is a definite relationship between the federally subsidized housing programs and local community development programs. This is manifested in its requirement that the Secretary of HUD, at the time he approves a community development application, reserve an appropriate amount of subsidized housing funds to meet the housing needs specified in the application. NACo supports this linkage of subsidized housing funds to community development and views it as critical.

Subsidized housing is necessary both from the point of view of being able to relocate families and from the point of view of being able to sell land acquired through community development. Under no circumstances should community development legislation be enacted unless there are accompanying and complimentary provisions for subsidized housing programs.

COMPREHENSIVE PLANNING AND MANAGEMENT

An integral part of the community development process is the ability to plan, implement and manage a comprehensive program. New community development legislation will call upon counties and cities to exercise new responsibilities in priority-setting and decision-making. Their abilty to exercse this new responsibility is directly related to funds available for building their planning and management capability. Any rewrite of the 701 Comprehensive Planning and Management program must include as a priority in the distribution of funds the needs of urban counties and metropolitan cities. Furthermore, such funds should go directly to those counties and cities rather than through the states. New community development legislation thus ought to provide complimentary planning and management provisions.

Allow me for a moment, Mr. Chairman, to particularize the impact of community development legislation on Prince Georges County. Prince Georges

County, located on the eastern periphery of the District of Columbia, is a mix of urban, suburban, and rural areas covering approximately 486 square miles with a population of approximately 750,000. The county level of government in Maryland is the basic unit of local government, functioning just like a city and possessing the full range of powers and services.

Prince Georges County is deeply involved in all facets of community development activities. During the past 3 years the county has been conducting a community renewal program study designed to develop strategies to redevelop deteriorating areas of the county. As a result of this study, the county is prepared to undertake neighborhood development program projects in areas identified in the study.

In addition to this, Prince Georges County is involved in federally assisted code enforcement (FACE), water and sewer, model cities, and open space programs. During Fiscal 1972, the county received the following Federal assistance from HUD:

Community renewal program	$16. 201
FACE	540, 000
Model Cities	2, 865, 000
Water and sewer	15, 247, 000
Open space	2, 042, 530
Total	20, 710, 731

During Fiscal 1973, Prince Georges County projects its need for federal assistance as the following:

Neighborhood development program	$300, 000
FACE	1, 040, 000
Open space	3, 520, 000
Total	4, 860, 000

In Fiscal 1974, were the HUD programs not terminated, the county would anticipate federal assistance of approximately $6.5 million for the above projects.

Our needs are too great and our local resources too scarce to proceed without federal financial assistance. What we need is new community development legislation enacted in sufficient time for its implementation on July 1, 1974.

In summary, Mr. Chairman, we once again commend the Subcommittee for moving with dispatch on this important legislation. We in NACo are confident that legislation embodying the recommendations set forth in this testimony will prove to be of great benefit to us on the local level. With your help we may begin the difficult but necessary task of solving our pressing community development problems.

Senator McIntyre. The subcommittee will come to order.

At this time I would like to call as a witness Mr. Daniel Wuenschel, executive director of the New Hampshire Housing Development Corp., and I would like to introduce him.

Daniel Wuenschel, who is the executive director of the New Hampshire Housing Development Corporation—I wish I could say I have known Mr. Wuenschel over a period of years, but that is not the case. I met him on several occasions but my knowledge of his career and reputation is essentially what others have told me.

In this respect, however, I should tell the subcommittee that a close friend whose judgment I value and respect refers to this witness as "Mr. Housing of New Hampshire", and holds him in very high esteem indeed.

Mr. Wuenschel is a graduate of the LaSalle College of Philadelphia. After college he taught school, served as a Department of Welfare caseworker, and as a Head Start teacher and coordinator.

In 1967 he became the administrative assistant to the area director of the federally assisted code enforcement program in Philadelphia, and later served as area supervisor of community work and

tenant services for the same program. This role involved the establishment of a casework and social service system for an area which included some 100,000 poverty families.

Within this framework a large, low-income tenant union was organized and staffed under Mr. Wuenschel's direction. In 1969 Mr. Wuenschel became executive assistant to the president of the Philadelphia Housing Development Corp., and a year later became general manager of the Joint Development Agency which represented a consolidation of two organizations, the Philadelphia Housing Development Corp. and the Development Division of the Philadelphia Housing Authority.

In this capacity he played an important role in the Agency's negotiating and receiving over a million dollars of administrative funds, $3 million in capital funds and the completion of more than a thousand units of nonprofit sponsored and public housing under various HUD programs.

Since July of last year Mr. Wuenschel has served as Executive Director of the recently created New Hampshire Housing Development Corp. It is my understanding that in today's testimony he will examine current subsidized housing programs in the state, and will make suggestions for what he describes as "modest changes" in these programs.

I am happy to welcome you here, Mr. Wuenschel, and we are delighted to hear what you have to say about this particular legislation.

STATEMENT OF DANIEL J. WUENSCHEL, EXECUTIVE DIRECTOR, NEW HAMPSHIRE HOUSING DEVELOPMENT CORP.

Mr. WUENSCHEL. Thank you, Mr. Chairman. In light of the press of time, I am going to try to summarize some of my remarks and make what will be a brief presentation. I would like to limit my testimony to a few brief remarks concerning the grim lack of housing opportunity in rural areas, and suggest a few remedies which might hopefully assist your deliberations.

From its inception, our corporation determined to focus its attention and energies at the rural level. This policy results from the fact that New Hampshire is a rural State—the 1970 census shows that 74 percent of the State's permanent housing units are outside standard metropolitan statistical areas and 45 percent of all year units are in towns of less than 2,500 population.

More importantly, no vehicle, no system, no agency existed in the rural areas which could possibly provide the necessary impetus, know-how, or resources which are so critical to a systematic efficient provision of housing units to needy families and elderly citizens.

For the past year, the New Hampshire Housing Development Corp. has attempted to fill this gap in cooperation with various private, State and Federal agencies, local nonprofits, and so forth. Our results, like the results of similar organizations across the country, have fallen far short of the goals which we had hoped to achieve.

This general situation results from a lack of sufficient funding to administer such a program, inadequate programs to start with, and finally, the removal of the entire "tool-bag" in January of this year by way of the housing moratorium.

Generally speaking, the results referred to earlier are as follows:

(*a*) Some, though too few, moderate income families were being served by the FMHA 502 and 504 programs.

(*b*) Truly low-income citizens, both families and elderly, were not served in rural areas at all because the gap between income and cost to build, rent, or repair was too great.

(*c*) Critical housing problems in small towns and rural areas were, at best, "remedied" by uprooting the subjects and relocating them to already overburdened city public housing waiting lists in Manchester, Concord, and Nashua.

If we are to stop this senseless punishment of the rural poor which only exacerbates the problems in urban America, we must take some steps to equalize housing opportunity in rural areas.

We feel that we have at least begun to move in this direction in New Hampshire by the creation of a new State housing commission. This commission was enacted into law and a modest "start-up" fund was appropriated by the State. It now needs workable programs and financial assistance from the Federal Government to accomplish its task.

Some specific, yet very basic suggestions follow which field experience shows to be, in our opinion, meritorious and practical in the long run:

1. Specific attention to rural housing must be given at the Federal, State, and local levels. This commitment must be demonstrated by adequate funding of a separate Federal rural housing agency with appropriate authority.

2. Concommitant water and sewer grants must be made available to those States, regions and communities who are attempting to provide housing for their low income citizens.

3. A range of subsidies like those advocated in the Emergency Rural Housing bill must be made available. Ideally, these subsidies would be administered by a single rural housing agency and the subsidies would be based entirely on the ability of the citizens to repay.

Until such a single subsidy program is available, several interim measures should be instituted as quickly as possible to increase deep subsidies:

(*a*) Public housing operating subsidies must be preserved and maintained, if that vehicle legislated specifically for the poor is to continue to serve them.

(*b*) Rent supplements should be made available to Farmers Home Section 515 Rural Rental Housing.

(*c*) Combination grants and loans of up to $5,000 should be made under Farmers Home: Section 504. The grant provision should be made according to the applicant's ability to repay.

For years, such combination grant and loan packages have been available under the HUD 312 and 115 programs. Such a provision under section 504 would do a great deal to assist poor New Hampshire homeowners and at the same time help preserve our structurally sound rural housing stock.

(*d*) Federal financial assistance to appropriate State and regional agencies which are striving to provide the vitally necessary technical assistance to establish a rural housing delivery system is essential. Few, if any, subsidized housing units would exist today without the intermediary, the State housing authority, the local housing authority, the nonprofit sponsor, the community action agency, and so forth.

In the absence of drastic changes, such intermediary organizations need increased financial assistance if the thin and fragile framework that does exist will not break down entirely.

For this reason, we applaud the provision of financial assistance to consolidation efforts by local housing authorities as contained in Senate bill 2182 introduced by Senator Sparkman on the 14th of this month.

In summation, I would only reiterate that the need for a long, hard look at our national housing programs is in order. We cannot, however, afford to stand still during the evaluation period. All that we ask and recommend is that some interim steps be taken to put the ill-housed resident of rural America on equal footing with his urban counterpart, and that some forward movement be shown so that hope will not become a lost emotion in America.

(Complete statement follows:)

STATEMENT OF DANIEL J. WUENSCHEL, EXECUTIVE DIRECTOR NEW HAMPSHIRE HOUSING DEVELOPMENT CORPORATION

Mr. Chairman, Members of this Committee, my name is Daniel Wuenschel. I am the Executive Director of the New Hampshire Housing Development Corporation which is a nonprofit, OEO funded corporation which operates on a statewide basis to provide housing opportunities for low income citizens of New Hampshire.

I would like to limit my testimony to a few brief remarks concerning the grim lack of housing opportunity in *rural* areas and suggest a few remedies which might, hopefully, assist your deliberations.

From its inception, our corporation determined to focus its attention and energies at the rural level. This policy results from the fact that New Hampshire is a rural state (the 1970 census shows that 74% of the State's permanent housing units are outside standard metropolitan statistical areas and 45% of all year units are in towns of less than 2,500 population.) More importantly, no vehicle, no system, no agency existed in the rural areas which could possibly provide the necessary impetus, know how, or resources which are so critical to a systematic efficient provision of housing units to needy families and elderly citizens.

For the past year, the New Hampshire Housing Development Corporation has attempted to fill this gap in cooperation with various private, state and federal agencies, local non-profits and so forth. Our results, like the results of similar organizations across the country, have fallen far short of the goals which we had hoped to achieve. This general situation results from a lack of sufficient funding to administer such a program, inadequate programs to start with, and finally, the removal of the entire "tool-bag" in January of this year via the Housing Moratorium.

Generally speaking, the results referred to earlier are as follows:

(*a*) Some, though too few, moderate income families were being served by the FmHA 502 and 504 programs.

(*b*) Truly low income citizens, both families and elderly, were not served in rural areas at all because the gap between income and cost to build, rent or repair, was too great.

For example, a modest, new, $20,000 house would cost a New Hampshire family eligible for a 1% interest credit mortgage the following on a monthly basis:

Principal and interest at 1 percent	$59.00
Property taxes	60.00
Insurance	8.00
Heat and utilities	50.00
Total monthly housing expense	177.00

Following the formula that this monthly housing expense is not to exceed 25% of the family's *adjusted* income, we realize that we are dealing with a family whose gross income exceeds $8,500 per year. Those who fall below such income levels cannot afford to be served by the program used in the example, or any other program available except public housing which is simply not available in rural areas.

Yet, a recent study done through the auspice of the New England Regional Commission and based on the 1970 U.S. Census shows that over 30% of New Hampshire's households would be eligible for low rent public housing in accordance with their income.

(*c*) Critical housing problems in small towns and rural areas were at best, "remedied" by uprooting the subjects and relocating them to already overburdened city public housing waiting lists in Manchester, Concord, and Nashua.

If we are to stop this senseless punishment of the rural poor which only exacerbates the problems in urban America, we must take some steps to equalize housing opportunity in rural areas.

We feel that we have at least begun to move in this direction in New Hampshire by the creation of a new State Housing Commission. This Commission was enacted into law and a modest "start-up" fund was appropriated by the State. It now needs workable programs and financial assistance from the federal government to accomplish its task.

Some specific, yet very basic suggestions follow which field experience shows to be, in our opinion, meritorious and practical in the long run.

(1) Specific attention to *rural housing* must be given at the Federal, State, and local levels. This commitment must be demonstrated by adequate funding of a separate federal rural housing agency with appropriate authority.

(2) Concomitant water and sewer grants must be made available to those states, regions, and communities who are attempting to provide housing for their low income citizens. Many towns in New Hampshire simply cannot permit further destruction of their waters which are vital to the tourist economy, one of the states most important income producers.

(3) A range of subsidies like those advocated in the Emergency Rural Housing Bill must be made available. Ideally, these subsidies would be administered by a single rural housing agency and the subsidies would be based entirely on the ability of the citizen(s) to repay.

Until such a single subsidy program is available, several interim measures should be instituted as quickly as possible to increase deep subsidies:

(*a*) Public housing operating subsidies must be preserved and maintained, if that vehicle legislated specifically for the poor is to continue to serve them.

(*b*) Rent supplements should be made available to Farmers Home Section 515 Rural Rental Housing.

(*c*) Combination grants and loans of up to $5,000 should be made under Farmers Home Section 504. The grant provision should be made according to the applicant's ability to repay. For years, such combination grant and loan packages have been available under the HUD 312 and 115 programs. Such a provision under Section 504 would do a great deal to assist poor New Hampshire homeowners and at the same time help preserve our structurally sound rural housing stock.

(*d*) Federal financial assistance to appropriate state and regional agencies which are striving to provide the vitally necessary technical assistance to establish a rural housing delivery system is essential. Few, if any, subsidized housing units would exist today without the intermediary, the state housing authority, the local housing authority, the non-profit sponsor, the community action agency, etc. In the absence of drastic changes, such intermediary organizations need increased financial assistance if the thin and fragile framework that does exist will not break down entirely.

For this reason, we applaud the provision of financial assistance to consolidation efforts by local housing authorities as contained in Senate Bill 2182 introduced by Senator Sparkman on 7/14/73.

In summation, I would only reiterate that the need for a long hard look at our national housing programs is in order. We cannot, however, afford to stand still during the evaluation period. All that we ask and recommend is that some interim steps be taken to put the ill-housed resident of rural America on equal footing with his urban counterpart. And that some forward movement be shown both so that hope will not become a lost emotion in America.

Senator McIntyre. Thank you.

Mr. Wuenschel, let me say that the committee has had extensive testimony on rural housing yesterday, and this subcommittee has always been concerned about rural housing needs. We will surely write into the 1973 bill a new assistance provision for rural housing.

Rural housing is a particular concern to our great State. It is important to New Hampshire. There is a bill, I think it is S. 361, the Emergency Rural Housing Administration Act, which Senators McGovern, and Abourezk, and Humphrey have sponsored, and they are asking me to cosponsor.

I think from what you have said here, you feel I should get behind that and make it part of this bill that is coming out?

Mr. WUENSCHEL. That's correct.

Senator MCINTYRE. I want to thank you very much for taking the time to come here today and giving us your suggestions. I appreciate that very much.

I am now very happy to turn over the gavel to a member of this subcommittee, John Tower, the Senator from Texas.

Senator TOWER. Why are you turning it over to me? Where are you going?

Senator MCINTYRE. You are a member of the subcommittee.

I do want to say to those witnesses that are being held up today that we are under very difficult constraints here in the Senate. Everybody is rushing around with committee hearings and there is a great deal of activity on the floor as we rush for an August recess.

I was telling one of my aides, "I'm not sure that recess is going to be worth it if we have to stand on our heads in the meantime to get all this work done before we go." I think that is one of the reasons that it has been difficult to run this committee this morning.

Senator Taft, as he probably explained to you, is very much involved on the floor on the minimum wage bill.

Senator TOWER. His amendment is pending business.

Senator MCINTYRE. Now, Senator Tower, it is all your.

Senator TOWER. Thank you very much, Tom. I believe that the next witness in order will be David Shepherd, a member of the board of directors, the National Association of Regional Councils, and the mayor of Oak Park, Mich.

Mr. Shepherd?

Mr. SHEPHERD. Thank you very much, Mr. Chairman. I have with me Richard Hartman, the executive director of the National Association of Regional Councils.

Senator TOWER. Thank you. Now, you can read your full statement or you can—we can print it in its entirety in the record, and you can hit the high points of it. You may proceed any way that you want to. Your statement will be printed in full in the record, whether you read it in its entirety or not.

STATEMENT OF DAVID H. SHEPHERD, MEMBER, BOARD OF DIRECTORS, NATIONAL ASSOCIATION OF REGIONAL COUNCILS, AND MAYOR OF OAK PARK, MICH.

Mr. SHEPHERD. It is a great privilege for me to have the opportunity to testify before the distinguished members of this subcommittee. I am here today as a member of the board of directors of the National Association of Regional Councils and as chairman of its Special Committee on Housing and Community Development.

Also, for the record, I have the pleasure of serving as mayor of the city of Oak Park, Mich., and as a member of the executive committee

of the Southeast Michigan Council of Governments, which is in the Detroit metropolitan area.

I am also on the National League of Cities Intergovernmental Relations Policy Committee, and serving as a trustee of the Michigan Municipal League.

I do want to make this introductory comment, that I am interested in regionalism and I am interested in the regional movement, because I am mayor of the city of Oak Park. I obviously would not be at all interested in this if it were not to the advantage of my community to have areawide planning and coordination.

The National Association of Regional Councils was initiated in 1967 to assist local government officials in organizing a rapidly growing number of regional councils.

Simply summarized, regional councils for the most part are areawide organizations of general purpose local governments which involve more than one local government and encompass a total regional community. Regional councils exist both in densely populated metropolitan areas and in sparsely populated rural areas.

Their prime purposes are to increase communication, cooperative decisionmaking, and coordination among local governments; to review and comment on certain Federal grant applications; and to develop policies and programs to meet mutual problems and guide orderly development.

More than 600 such regional councils have been established to deal with areawide problems. Their governing bodies are composed primarily of local government-elected officials. These local-elected government officials working together develop and approve the plans and policies for the development of the region.

In the last 2 years, the continued growth of regional councils has been encouraged by the actions of the States. Forty-four States have initiated the process of establishing substate districts. Of these, 34 have completed or will shortly complete the subdistricting process and have designated regional councils for each district.

The Southeast Michigan Council of Governments is the regional council for the substate district established by the State of Michigan. This type of substate districting was referred to earlier in Governor Gilligan's testimony.

In the interests of time, I will summarize the highlights of our testimony.

Regional councils are established by law. Through the OMB A 95 Review and comment process have saved taxpayers an estimated $450 million a year.

There are certain things in S. 1743 and S. 1744 that we are particularly interested in because of the impact on regional councils and this review process. Speaking as a local elected official, one of the most important improvements in the bill is to assure local government continuity in funding. We support the community development principle encompassed in each of these bills. We also support the ability to combine program.

The need for area-wide coordination will not disappear with the advent of community development block grants or revenue-sharing.

We feel that there should be some specific statutory guidelines to determine where proposed community development activities have

areawide impact and therefore should be consistent with regional policy and plans.

To assure this consistency and at the same time minimize the time period for input in local decision-making, we have developed several recommendations. They will provide in our opinion a reasonable basis for evaluating the areawide aspects of community development applications.

Both bills presently do require some degree of public review and inspection prior to final local government application approval. We suggest that at the same time this public review is being made that the proposal be submitted to the appropriate regional council for application review. This would allow an opportunity between local government, the regional councils and neighboring communities to review regional implications.

We also believe that there are only certain matters which should be subjected to regional review. We suggest that the regional review follow these criteria in determining whether a proposed community development activity is subject to review.

First, activities which are of a multijurisdictional nature such as an activity funded, operated, or owned by more than one jurisdiction; located on or adjacent to the boundaries of one or more neighboring jurisdictions; with a significant impact on shared facilities and activities of more than one jurisdiction; or results in substantial use by citizens of more than one jurisdiction.

Second, activities encompassed within areawide plans and policies adopted by the regional council, and third, activities requiring areawide policies and planning under Federal law, such as air and water quality, mass transit, highways, and so forth.

This brings another point, if during the review process an application activity is in conflict with the regional plan. How would you resolve the conflict?

We do not propose to pass the buck to the Federal Government. We believe that the local governments can solve these problems. Most of them will be resolved in the staff discussion and review process, but in those cases where this fails, we feel the applicant government should use the regional council, made up of local elected officials from the area, to work out the inconsistencies.

Our only other option would be to have the Governor or his designated agency resolve the conflict. We do not believe that an entire application should be held up for these areas of conflict, but only those activities that are actually in conflict.

Housing is extremely important. Many regional councils today are involved in creating regional housing programs and plans. We believe that this is a very essential priority.

Section 701 is of extreme importance to regional councils. If substantial changes are made in 701 or if it is replaced, we would ask the subcommittee to consider the following points: First, section 701, with a few minor amendments, can perform most of the tasks suggested by the Administration's Responsive Governments Act, as it has been discussed.

Second, special consideration for earmarking 701 funds to regional councils should be considered. S. 3248, which passed the Senate in 1972, had such a provision. The existing system, where large metro-

politan regional councils have direct access to HUD for funding, is preferred to the delegation of funding administration to the States.

Third, if consideration is given to the State role in 701 programing, it should be based on a hold-harmless policy assuring regional councils at least the same level of funding for a period of 5 years subsequent to State administration of the program.

Fourth, a most important point relative to 701 funding is the matter of interstate regions, the metropolitan regions that include portions of more than one State. It is essential that these regions continue to have direct funding.

Mr. Chairman, I have gone through this rather quickly. I understand your time problems. If you have any questions, I will certainly try to answer them.

[The complete statement of David H. Shepherd follows:]

STATEMENT OF DAVID H. SHEPHERD, MEMBER, BOARD OF DIRECTORS, NATIONAL ASSOCIATION OF REGIONAL COUNCILS

Mr. Chairman, gentlemen: It is a great privilege for me to have the opportunity to testify before the distinguished members of this Subcommittee. I am here today as a member of the Board of Directors of the National Association of Regional Councils and as Chairman of its Special Committee on Housing and Community Development. Also for the record, I have the pleasure of serving as Mayor of the City of Oak Park, Michigan, and as a member of the Executive Committee of the Southeast Michigan Council of Governments (Detroit metropolitan area.)

Let me begin with some introductory comments about our organization which will serve to make clear our point of view. The National Association of Regional Councils was initiated in 1967 to assist local government officials in organizing a rapidly growing number of regional councils.

Simply summarized, regional councils for the most part are areawide organizations of general purpose local governments which more than one local government and encompass a total regional community. Regional councils exist both in densely populated metropolitan areas and in sparsely populated rural areas. Their prime purposes are to increase communication, cooperative decision making, and coordination among local governments; to review and comment on certain federal grant applications; and to develop policies and programs to meet mutual problems and guide orderly development.

More than 600 such regional councils have been established to deal with areawide problems. Their governing bodies are composed primarily of local government elected officials. In the last two years, the continued growth of regional councils has been encouraged by the actions of the states. Forty-four (44) states have initiated the process of establishing substate districts. Of these, 34 have completed or will shortly complete the subdistricting process and have designated regional councils for each district.

Most regional councils serve as the basic coordinative device for federal funding of local government activities. This function is based on the "review and comment" provisions of Section 204 of the Demonstration Cities and Metropolitan Development Act of 1966 and the Intergovernmental Cooperation Act of 1968, both of which are implemented through Circular A–95 of the Office of Management and Budget. Regional councils, designated as A–95 agencies, review federal aid applications of local governments prior to submission to the federal funding agencies. This review process saves taxpayers an estimated $450 million a year.

NARC is a membership association of regional councils throughout the country. Our Board is composed of local government elected officials and other regional council policy members, as well as representatives from the Boards of the National League of Cities and National Association of Counties.

A basic regional council concern is the balanced and orderly development of our metropolitan areas and rural regions. Because many of our domestic problems are intergovernmental in nature, this is a very difficult but necessary mission. It has become abundantly clear that most state and local governments are unable to finance all local public services and have become dependent on federal assistance. But the nature and type of financial assistance to local government is important.

The character of federal aid is especially sensitive in the promotion of intergovernmental cooperation, wise public investment, and areawide planning for orderly and balanced development. It is for this reason we are particularly interested in two bills pending before the Subcommittee—S. 1743 and S.1744. Each of these bills concerns community development assistance programs. They propose a radical and, we think, a needed change from the categorical grants-in-aid system. The thrust of the two proposals before your Subcommittee is similar, but there are significant differences in implementation. We would like to comment briefly, Mr. Chairman, on the general concept behind these bills and the implications they may have on areawide cooperation, public investment and development.

I would like to cover several points: (1) the community development concept, (2) national goals and priorities, (3) regional housing activities, and (4) reorganization of the HUD 701 program.

COMMUNITY DEVELOPMENT

In essence, both S. 1743 and S. 1744 would consolidate into one comprehensive grant program most of the hardware grant programs of the Department of Housing and Urban Development. In addition to consolidating these categorical programs, both bills would encourage and authorize a greater flexibility in the use of the grant monies for locally identified community development needs and priorities. Speaking as a local elected official, one of the most impprtant improvements contained in these bills would assure local government a continuity in funding. By departing from a project orientation and moving to a total community development approach, these bills will permit local governments to do advanced planning and programming with the knowledge that continuing federal funds will be available. We support the community development principle encompassed in each of these bills.

We also want to indicate our support of the provision in S. 1744 that local governments can combine on a regional basis to undertake all or part of a community development program. There are many regions throughout the country to which this could be an attractive and economical alternative to that of individual local governments carrying out a total community development program. In other areas, certain activities might be accomplished jointly because they can be carried out more effectively at the regional level. It is suggested, however, that additional inducements for cooperative and joint community development programs makes sense dollarwise and in terms of rational regional development. For example, local governments might need specific incentives to work together in developing a regional housing program. Subsequently, we would hope that the Subcommittee would give some thought to providing earmarked funds as financial inducements to encourage intergovernmental cooperative programs among local governments.

NATIONAL GOALS AND PRIORITIES

We propose that language be added to foster areawide cooperation and balanced development in metropolitan areas and rural regions. S. 1744 comes closest to fulfilling this need. It departs from the concept contained in the Administration's Better Communities legislation which does not contain any planning goals and priorities. It simply requires that the applicant file a statement of intent as to community development objectives, the projected uses of the community development funds and the degree to which community activities relate to state and areawide community development activities: (1) programs for meeting the housing needs of low and moderate income individuals and families residing or working in the community, and (2) steps to prevent and eliminate slums and blight and upgrade neighborhood environment through urban renewal, code enforcement and similar programs. Moreover, the applicant must certify that the proposed activities are consistent with comprehensive development planning at the local and areawide levels.

As a local elected official, I am sympathetic with the need to discard the often onerous conditions and red tape for securing federal grant-in-aid funds. But at the same time, I feel it is desirable for Congress to impose certain minimal requirements which will encourage the coordination of community development programs with those of neighboring jurisdictions and with related programs.

Many of the eligible activities under proposed community development legislation would have significant impact on areawide development. Previously, Con-

gress has identified certain of these developmental activities and required local governmental applicants to undertake such projects only when consistent with areawide planning and programming. This Subcommittee placed such requirements on the HUD-administered open space and water and sewer categorical programs. Moreover in 1968, Section 701 of the Housing Act was amended to require a housing element in the comprehensive areawide planning funded under that section.

The need for areawide coordination will not disappear with the advent of community development block grants or revenue sharing. This fact is recognized in S. 1744. But we feel there should be some specific statutory guidelines to determine whether proposed community development activities have areawide impact and, therefore, should be consistent with regional policies and plans. To ensure this result, and at the same time minimize the time period or intervention in local decision making, we have developed some recommendations. They would provide, in our opinion, a reasonable basis for evaluating the areawide aspects of community development applications.

Presently, both bills require some degree of public review, inspection and comment prior to final local governmental approval. At the same time this public review is made, we suggest that the proposal be submitted to the appropriate regional council for a preapplication review. This would allow negotiations between local governments and their regional council on matters of regional concern, and would avoid an extended review process. A 60 day period for such review seems reasonable. This is the suggested time proposed in S. 1743. During this period, regional comments, among others, would be submitted to the applicant prior to formal adoption by the local government. Following final approval of the application by the local government, the application would be submitted through the normal 30 day A-95 review process to the state and regional review agencies. The regional council would provide its formal comments and a regional "certification of consistency" to be filed with the application. This process should expedite the local government application since HUD will have full comments from the state, regional agencies and neighboring local governments available to them in their final review of the application.

In our opinion, the regional review should be limited to those community development activities that affect adopted regional policies and plans or impact directly on neighboring jurisdictions.

It is suggested that the regional review agency be required to follow these criteria in determining whether a proposed community development project or activity is subject to regional review :

(1) Activities which are of a multijurisdictional nature. The multijurisdictional nature would be determined if the activity :

Is funded, operated or owned by more than one jurisdiction ;

Is located on or adjacent to the boundaries of one or more neighboring jurisdiction ;

Has significant impact on shared facilities or activities of more than one jurisdiction ; or

Results in substantial use by citizens of more than one jurisdiction.

(2) Activities encompassed within areawide plans and policies adopted by the regional council, and

(3) Activities requiring areawide policies and planning under federal law (e.g. air and water quality, mass transit, highways, etc.)

We suggest that only activities which fall within these criteria should be subject to areawide planning requirements in the community development legislation.

A logical question then follows from this requirement. What happens if there is a conflict between local proposals and areawide policies and plans? In other words, who decides? We do not propose to pass the buck to the federal government. Such inconsistencies for the most part will be resolved in the discussion and review process. But in these isolated cases where this process fails, we feel that the best solution is for the applicant local government to have an option. Our preference would be for the local governments to arbitrate differences through their regional council. But another alternatve should be available. NARC suggests that at the option of the applicant, the Governor or his designated representative should be authorized to resolve the conflict. In any event, the application should not be held up pending resolution of the dispute. We suggest that the application should go to HUD for funding of all elements except those that are in conflict, and the local government should be allowed to expend its formula funding for all but the disputed items pending a decision on the dis-

puted matters. However, at any point, the applicant should always have the option to reprogram the disputed activities into local community development activities.

The mechanics of this approach could simply be the provision in the law that the regional council issue a certification of all elements that are found to have regional impact under the criteria I have just cited.

Mr. Chairman, this procedure meets the increasing needs of returning decision making back to state and local governments. At the same time, it recognizes that parochial interests should not interfere with sound and balanced growth and development policies in our metropolitan areas and rural regions. Indeed, as local elected officials, we feel that if we cannot work together to solve our interjurisdictional problems, the time may well come when we will lose much of our authority over our own local decisions.

REGIONAL HOUSING ACTIVITIES

While the various federal housing programs do not require areawide planning, they are, nevertheless, becoming a more relevant part of regional council programs. Although housing is a sensitive issue, there appears an emerging consensus from most progressive local elected officials that it is a metropolitan and regional challenge. It is obvious that no one local government can adequately provide the necessary housing for low and moderate income people. And over-concentration of such housing in one jurisdiction is detrimental to the balanced growth of the entire region.

We believe that the federal housing policy must be an integral part of any community development program. Again, we support S. 1744 in requiring that linkage. NARC has been attempting to develop some specific housing principles which we feel are essential to balanced areawide development. We are also aware that the Administration's reassessment of federal housing programs is scheduled to be completed in early September. We will not dwell on this issue at this time Mr. Chairman. I am attaching a statement of these principles. We hope to have the opportunity to send you a detailed statement of our position on this matter at a later date. But there are several objectives that we hope the Subcommittee will consider in looking at the relationship of community development and new housing programs.

First of all, the experiences of our regional councils have demonstrated that the real housing market is a metropolitan or regional one, and solutions to housing problems ought to be approached within this larger context. Before the housing moratorium this January, several of our regional councils were in the process of implementing allocation plans for low and moderate income housing within their areas. We feel this approach, which was encouraged by HUD, has great potential for developing truly balanced communities throughout the United States. Such joint action can help eliminate distortions in our housing market. Too often people with low and moderate incomes cannot live within the jurisdiction where they are employed due to a lack of affordable housing. We hope that this Subcommittee gives serious consideration to maintaining some significant areawide dimensions in any reformulation of national housing programs. It is our understanding that housing allowances and rent supplements will be carefully examined as principal methods of solving our national housing problems. We feel that such approaches have merit. If these approaches become a part of a new national policy, we believe that there is some regional dimension that can be built into the program. For example, there will be a need to certify that any unit eligible for rent under a housing allowance program meets housing and building code requirements and is a safe and sanitary unit. Such a requirement in a housing allowance program could be the basis for certifying units as eligible for participation in the program. Moreover, certified units might well be rented in accordance with a regional housing plan, such as those fair share programs developed in Washington, Dayton, Denver and other metropolitan areas.

REORGANIZATION OF 701

Finally, Mr. Chairman, we would like to speak briefly on the Administration's proposal to develop a new planning program to replace the Section 701 Comprehensive Planning Assistance Program. As you know, this program is of vital importance to our regional councils. If substantial changes are made in Section 701 or if it is replaced, we would ask the Subcommittee to consider the following points:

Section 701, with a few minor amendments, can perform most of the tasks suggested by the Administration's Responsive Governments Act.

Special consideration for earmarking funding for regional councils should be considered. S. 3248 which passed the Senate in 1972 had such a provision.

The existing system where large metropolitan regional councils have direct access to HUD for funding is preferred to the delegation of administration of the program to the states. If consideration is given to a state role in funding and programming a regional council, however, it should be based on a hold-harmless policy assuring regional councils at least the same level of funding for a period of five years subsequent to state administration of the program.

One final point, Mr. Chairman, relates to the unique situation in our interstate metropolitan areas which requires special congressional attenton. If 701 is to be changed and a state administration role assigned, it is vitally important that the funding of interstate metropolitan councils should not be included. These agencies should continue a direct relationship with HUD. The only justifiable exception would be where the states and the regional councils concerned mutually agree to formal contractual arrangements for future funding through the states.

Mr. Chairman, I know our comments have been rather lengthy, but we wanted to give you the benefit of some of our thoughts on these vital interests. We thank you and the other committee members for your indulgence. If you have any questions, we will certainly try to answer them.

Part V—Housing

GOAL 5.01: REGIONAL STRATEGY

Housing requires a regional strategy, and regional councils should provide this leadership in the housing field. Councils should work with local government leaders to gain leadership commitment and decisions on housing challenges.

Discussion.—Housing and the housing development process must be viewed as an integral part of planning for the region as a whole. Housing plans and programs should be positively related to transportation plans, open space plans, water and sewerage plans, the provision of public facilities and health and social services, and to job opportunities. This mission will involve high visibility and the assumption of strong leadership in creating public understanding, appreciation, and acceptance of the need for resolving housing problems on a regional scale.

GOAL 5.02: REGIONAL COUNCIL PREFERENCE

Reginal housing planning should be vested in existing regional organizations which are controlled by the elected officials of general purpose local governments, and not single purpose agencies. Regional councils should pursue state government enabling legislation to use regional councils as the appropriate agencies for housing planning and coordination.

Discussion.—The need for coordinated and more relevant metropolitan institutions to plan for and deliver housing is another crucial issue. The proliferation of local housing authorities and other housing planning and development agencies has not produced enough or, in some instances, sound housing to meet the needs. A coordinated process is essential. The relationship between the public and private housing sectors is an often neglected area of public policy and an important issue. Through the development and adoption of a regional housing development plan, the regional council (public sector) can coordinate activities of the private developer.

GOAL 5.03: HOUSING ACTIVITIES

Regional councils should develop a housinug role which seriously considers these components:

Set housing policy and priorities in conjunction with local governments.

Establish allocation process for low income housing, including a fair share distribution among local communities.

Coordinate with other community development.

Review and comment on proposed housing projects as they relate to implementation of adopted regional policies.

Provide technical assistance to public and private agencies.

Establish suitable operational agencies where needed.
Serve as a clearinghouse on housing data.
Serve as a catalyst for public and private agencies.
Relate housing to public and private sector economic considerations such as private market feasibility.
Promote local adoption of progressive zoning and construction performance codes.
Evaluate aspects of all taxing policies on development and rehabilitation of housing.

GOAL 5.04: HOUSING DISPERSAL

It is essential to decentralize housing for low and moderate income people instead of concentrating it in the central cities and existing high density minority group communities.

Dscussion.—Shifting patterns of population and land use are redistricting employment to suburban areas where housing production is not meeting the needs of the labor force. At the same time, there are equally critical needs for more low and moderate income housing in the central city areas. Since all types of housing are needed in the region, it is desirable to have a balance of housing opportunity among communities. No one community should bear more of a tax burden or receive more of a tax benefit than another. Therefore, it becomes an areawide problem to assure equitable and desirable housing development throughout the region.

GOAL 5.05: AFFIRMATIVE FEDERAL POLICY

Congress should adopt an affirmative federal housing policy which promotes and supports economic as well as racial integration in new housing developments.

Discussion.—The current federal housing policy places the burden for the implementation of areawide programs for the distribution of low and moderate income housing directly on local initiative. There is considerable discussion as to whether local-regional leadership and initiative should be supported by federal and state policies and funding incentives. Individual local governments in a region should share equitably in their responsibility for providing low and moderate income housing in accordance with a regional plan. Rather than the federal government penalizing local governments that fail to live up to their responsibility, a new policy at the federal level should be premised on giving incentives to local communities for their adherence to areawide housing plans. Congress might also have reservations about providing additional funds for a local community to comply with obligations and responsibilities they should undertake anyhow.

GOAL 5.06: INCOME POLICIES

The federal government should evaluate and reorient housing distribution programs, emphasizing income supplements which expand the housing opportunities in the market of low and middle income families.

Discussion.—The myriad of existing housing programs at all levels have met with limited success at best. The intent of this goal is to phase out and reduce overlapping, duplicating and conflicting programs. This policy lets the suppliers of housing respond to the demands of the consumer. Assistance would focus primarily on enabling more families to purchase their housing preference, rather than on assisting the suppliers providing such housing. This approach relies on the market mechanism to respond to the housing demands generated.

Senator TOWER. Thank you very much, Mr. Shepherd, for your comprehensive statement, and let me reassure you that your entire statement will be made part of our record, so this will—your entire statement, even though you have summarized it, will be made part of the record.

I have no questions and thank you very much for appearing.

Mr. SHEPHERD. Thank you.

Senator TOWER. The next witness is Mr. Robert Honts of Austin, Tex., speaking for the League of New Community Developers.

STATEMENT OF ROBERT HONTS, AUSTIN, TEX., CHAIRMAN, GOVERNMENTAL RELATIONS, LEAGUE OF NEW COMMUNITY DEVELOPERS

Mr. HONTS. Mr. Chairman, with me today is Mark Freeman, who is executive director of the League of New Community Developers.

I will not take but just 2 or 3 minutes of the time, because there is a formal statement which you have and which I understand will be introduced into the record.

Senator TOWER. Anything that you want to submit for the record will be incorporated in the record.

Mr. HONTS. Thank you, Senator.

I think the first statement we should make would be one of complimenting this committee——

Senator TOWER. Just a minute, Mr. Honts. I believe that you do want the full statement placed in the record, is that correct?

Mr. HONTS. That is correct, sir.

Senator TOWER. Fine.

[Complete statement of the League of New Community Developers follows:]



910 17th Street, N.W.
Suite 728
Washington, D.C. 20006
(202) 872-1314

HEARINGS ON S. 1743 AND S. 1744

SENATE COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

STATEMENT BY LEWIS MANILOW,

CHAIRMAN OF THE BOARD,

LEAGUE OF NEW COMMUNITY DEVELOPERS

July 18, 1973

Mr. Chairman, Members of the Subcommittee:

My name is Lewis Manilow, I am Chairman of the Board of the League of New Community Developers, an organization consisting of active and potential developers of new communities as authorized by the Congress under the Title VII of the Housing and Urban Development Act of 1970. A description of the League and its membership is attached as an addendum to this statement.

With me today are Robert Honts, Chairman of the League's Governmental Affairs Committee and partner in the team developing San Antonio Ranch and Mark Freeman, Executive Director of the League.

A. NEW COMMUNITY DEVELOPEMENT

As you know, in 1970, under the leadership of this Committee and its counterpart on the House side, Congress approved the Title VII program, offering an attractive range of financial incentives to private and public developers to establish new communities. These new communities were designed to provide an alternative to the conventional, uni-dimensional, tract-by-tract development patterns which have contributed to the growth problems we face today; decline of rural areas and central cities, environmental deterioration, water, fuel and energy shortages, increases in public service costs, economic, racial and social imbalance in communities, fragmentation of local governments.

To control the problems of urban, rural and suburban decline, the Congress set forth the following goals to be achieved by the development of new communities:

More rational and desirable patterns of growth, development and redevelopment in our urban areas.

Land use patterns and practices which protect and enhance the physical environment.

Balanced open communities which provide ample housing opportunities for low and moderate income families, and which provide adequate access to social, educational and health services and facilities as well as opportunities to work in or near the new community being developed.

The community development process which has emerged because of Congressional intent, HUD regulations and developer responsiveness is based upon a more systematic and comprehensive approach to human settlement. The basic principle of the process is that there are several components necessary in the development of a well-planned community -- physical, environmental, social, financial, economic, governmental, and management -- and each plays an integral role in the life of the community. This multi-disciplinary approach to the planning and implementation of a new community makes it easier to view community life in its totality, as a system, and to deal with the problems which may occur while there is a chance for improvement.

For the most part, Title VII new communities are expected to be self-sustaining economic entities where people could work, shop, play and sleep; an alternative to urban, rural and suburban living yet capturing the advantages of each life style. The program has fostered significant achievements and innovations in financing, planning, coordination and program execution. In addition, new communities promise to fulfill their responsibility to employ advanced technology in meeting problems of community development. Some brief illustrations show the kinds of innovative approaches used by developers of new towns.

Environment and Open Space

- The development organizations for The Woodlands, San Antonio Ranch, and Pontchartrain have produced three of the most sophisticated, ecologically balanced plans ever developed in the United States.
- All approved projects devote between 18% and 27% of total land areas to recreation and open space. New communities like Jonathan have used this open space to effectively link the whole community through a series of "greenways," and this has influenced the entire open space program of the town of Chaska in which Jonathan is located.

Transportation

- At least five new communities may provide substantial transportation breakthroughs as they develop their advanced transit systems. Three others may well influence the entire transportation system in the metropolitan area in which they are located.

Communications

- The lessons learned at Jonathan as they developed a fully integrated communications system--tying together telephone, CATV, FM, educational programs, computer and other forms of information communication--will benefit all new communities and enhance our present state of knowledge regarding this new field.

Assimilation of Minority Groups

- Columbia and Park Forest South have a minority population equaling 17% of their total present population.
- All Title VII new communities must offer substantial housing and job opportunities to all minority groups.

Provision of Social Services

- Gananda is experimenting with a multi-use facility that will be leased by the school system, but available for other uses as well. Maumelle is doing much the same thing.
- In St. Charles, each village will have a health service clinic.

• Relocation of residents and small businesses in Cedar-Riverside is being handled in a way to minimize inconvenience to them.

Governmental Relations

• The new town of Newfields in Ohio is experimenting with the difficult yet highly promising concept of "dual development" whereby some public facilities are provided by the public developer and other public facilities and housing are built by the private developer.

• Jonathan is taking the lead in the planning of the entire corridor along which growth is taking place between the 20 miles separating Minneapolis and Jonathan.

• The State of New York is developing new communities through a State-chartered corporation financed by their own bonds and utilizing only Federal supplementary grant funds.

Since the enactment of the 1970 amendments, the New Communities Program has won the support of the Governors' Conference, the U.S. Conference of Mayors and the National League of Cities as an important community development approach. Both Party Platforms adopted last year endorse new community development as a part of the Nation's overall domestic program.

In January 1973, the National Association of Home Builders passed a resolution in support of the New Communities Program, and recommended that the program be broadened to include planned neighborhood developments.

B. PROGRAM FACTS

Since 1970, HUD has approved guarantees for fifteen new communities, which are listed on Table I in the appendix. The approved projects include twelve satellites, two NTITs, and one free-standing and their locations are identified on Map I in the appendix. The Title VII developments approved so far are located in nine states and will accommodate, when completed, an estimated aggregate population of 814,000.

The Title VII program has generated considerable interest on the part of developers and scores of proposals have been submitted to the HUD Office of New Community Development for consideration. Twenty of these proposals have completed the preapplication process, are in varying stages toward approval, and are listed on Table II. Similarly Map I pinpoints the location of each. They include twelve satellites, four NTITs, two free-standing, two growth centers, and are located in ten additional states. They are projected to serve, at completion, a combined population of approximately one million additional people.

Up to this point, the new communities program has been given, at best, only very modest support by the Administration and by HUD. In addition, the program's potential has never been really seriously evaluated by the Executive Branch. insofar as we can determine. This lack of commitment is exhibited in many ways. First, the ONCD is grossly understaffed. The ONCD staff had more than 50 project proposals or applications under review at the end of 1972. The complex nature of the program requires that each project be closely evaluated by numerous specialists and that the contracts for approved projects be negotiated on a custom-crafted basis. Disciplines required on the staff include physical planning, architecture, environmental engineering, social planning, land appraisal, cost engineering, market analysis, finance accounting, and legal skills. The new communities program has never been decentralized to regional or area offices, primarily because of this complexity; yet budget restraints at HUD's Washington office have never permitted the combined professional and clerical staff to exceed 35 people.

This staff cannot possibly do justice to the large volume of pending projects, many of which will obviously be forced to stand in line for several years at present staffing levels. In fact, in a study conducted for ONCD it was determined that

it generally takes 38 months for a project to go from pre-application submission to final offer of commitment by HUD. Because of the importance of timing in land development, those in line who can afford to go it alone will do so, to the great detriment of the growth objectives served by new communities.

Many potential developers, both public and private, have been dissuaded from participating in the program because of the complexity and length of the review process. While we feel that the interdisciplinary nature of the planning and review process is an excellent educational tool for developers and has systematized the community development process, we do not feel that an administrative problem -- the lack of staff -- should be allowed to thwart the participation of more developers in the program. The League and other interested parties have made countless attempts to remedy this situation; for the good of the program we urge this committee to assist us in these efforts.

Another serious shortcoming of the program has been the Administration's failure to release the broad range of financial incentives and resources the Congress created to encourage State and local governments as well as private developer participation in the new communities program. The Title VII program provides many funding mechansms to finance land

acquisition and land development activities, both of which constitute the major costs of developing a new community. As can be seen from Table III in the appendix so far, only two financial mechanisms have been implemented by HUD, the basic loan guarantee and the supplementary grant program.

(1) Loan guarantee: The basic Federal loan guarantee makes it possible for the developer to float debt instruments similar to corporate bonds, which can be offered to a broad capital market. The aggregate outstanding obligation that can be insured under the Title VII program is $500 million. To date, the outstanding obligations are $253.5 million. By law, each project cannot exceed $50 million and the loan guarantee of private debt must be secured by a first mortgage of 110% of the value of the project.

The total costs of the land and development activities which will be guaranteed by HUD vary. Private developers may be guaranteed an amount covering up to 80% of the value of real property before development and 90% of the land development cost. Public developers (a city, county, or public development corporation) can receive a federal guarantee covering 100% of the value of real property and 100% of land development costs.

(2) Supplementary grants: Title VII provides supplementary grants to State and local public bodies for those community development activities viewed as essential to developing the infra-structure of new communities. Supplementary grants, made by HUD, cover up to 20% of the project cost but never involve a total federal grant in excess of 80% of costs. They can be made in conjunction with 13 federal programs including urban mass transportation, highways, airports, public health facilities, libraries, recreation and open space lands, neighborhodd facilities, and other public health facilities needed to strengthen a community's economic development potential. These grants should prove helpful in reducing the cash required of the new town developer or the host community to provide a full range of facilities and services for a new community. Supplementary grants have only been sporadically released by HUD and the Administration has recommended termination of this important program element.

The other financial tools, the interest differential grants, interest loans, public service grants, technical and planning assistance and renewal assistance, some of which can be used in financing community amenities and services, have not been fully implemented by the Administration.

(3) Interest differential grants: Title VII also provides a program of interest difference in interest rates between obligations of public bodies guaranteed under the Act who may not be exempt from federal taxation, and the lower interest rates which would be obtained if such obligations were exempt. No funds have been requested by the Administration as of this date.

(4) Interest loans: In addition, Title VII recognizes the financial demands placed on developers during the early years of the development of a new community. Thus, it provides loans to developers to assist them in meeting interest payments on their indebtedness. Both private developers and public land development agencies are eligible for the interest loans, repayment of which can be deferred for fifteen years. No loan funds have been released as of this date.

(5) Public Service Grants: These grants are for eligible local public authorities provided for by Title VII. They can be used to fund basic education, health, and public safety services essential to the viability and growth of a new community. During the period when residents first move in, it is highly likely that they may be unable on the basis of their own resources to fully support such services. The public service grants, which can extend over a three-year period, could amke it possible for the community to provide such delivery systems. The Administration has not thus far requested funds for this purpose from Congress.

(6) Technical Assistance: Title VII authorizes the provision of technical assistance by HUD to private new community developers as well as state land development agencies or other local public bodies, to assit them in planning and carrying out new community development programs. So far, HUD has failed to take advantage of the authority provided for in the law.

(7) Special Planning Assistance: Both private and public developers are eligible for this assistance, which covers up to two-thirds of the cost of special planning. The program provides developers with funds to plan new community programs, particularly planning work having special value in developing programs which are fully responsive to social or environmental problems, or which support the use of new and advanced technology. In the case of private developers, assistance may be provided only for planning work which is in excess of ordinary market, financial, and engineering studies. This assistance would ease some of the "front end" costs that have to be borne by public and private developers and would serve to encourage innovative planning. Funds have not been released for this program. While some five million dollars for the purpose has been appropriated by Congress, the funds have not been released by the Office of Management and Budget.

(8) 701 Planning Assistance (75% grants) to State Regions or other multijurisdictional areas for the Development of National Urban Growth Patterns: The Act directs the Secretary to encourage state and regional governments to formulate plans, programs and implementing procedures necessary for planning and guiding urban growth. The 701 grants were authorized to give substance to the Secretary's encouragement. To date, HUD has shown no inclination to encourage state and/or regional governments as the Act directs nor have any 75% 701 grants been made for the purposes set forth in the law.

(9) Renewal Assistance for NTIT Development: Title VII amends existing urban renewal legislation to encourage and support the creation of NTITs and permits the acquisition of land, which is being occupied by uses which, although not physically blighting, are functionally obsolete and uneconomic. In effect, this provision was to make it possible for redevelopment agencies to undertake the acquisition and assembly of large tracts of land for puroses of eventual disposal at a write-down for the development of a new town. The Administration has so far taken no serious steps to encourage or implement this element of the program.

In considering and enacting the Title VII program, Congress recognized that a wide variety of resources would be needed to encourage the development of new communities. Experience under the program reflects the fact that Congress accurately anticipated the complex nature of the program and the need to offer economic inducements to private developers and State and local governments to participate. If the program's full objectives are to be attained, those who administer it must be cognizant of all of these facets and provide the necessary incentives or the program will fall considerably short of the objectives envisioned by the Congress. Therefore, we feel that in order to ensure the effectiveness of Title VII, the resources that Congress determined as necessary for the successful operation of the program should be made available.

C. COMMUNITY DEVELOPMENT GRANT LEGISLATION

Having presented our estimate of the Title VII program, I would now like to present our views on the community development legislation which is before this Committee. As I explained earlier, new communities are a community development tool to be viewed within a larger framework of a national growth policy. Their value is enhanced to the extent that they can deal with the problems of urban growth and to the extent that they can be used to direct and implement a national growth policy. Because new towns must

necessarily bring together all the programs which affect the community development process, including the interests of the Departments of Transportation, Agriculture, HEW, Commerce, HUD, and EPA, GSA and other agencies, we support any mechanism which will ease the problems and complexities of inter- and intra-agency cooperation and which make funds more easily available. We support the unification of the fragmented HUD community development programs, for we feel that this unification will enable us to better, and more efficiently, carry out our responsibilities.

S. 1744, The Community Development Assistance Act of 1973, would require consolidation of all Title I urban renewal programs, neighborhood facilities grants, open space land grants, the basic water and sewer facilities grants, public works planning advances and public facilities loans. Under the Administration's bill, S. 1743, the Better Communities Act, the first four programs would be consolidated; the public facility loan program would be excluded, but the Section 312 rehab loan program and Model Cities would be included in the consolidation.

Many of the categorical community development programs are essential in the development of new towns because they provide funds for the construction of the

skeleton of the new community -- the infrastructure. However important they are, the grants have been insufficient to meet the unique needs of the new communities. The developers have had to pre-service the communities -- install community amenities and facilities before residents move in -- while the local governments have been unable, either politically or financially, to commit scare resources to a community with no constituents. The financial difficulties are also compounded by the commitments the developers have made to provide anywhere from 25 to 40 percent of their total projected housing supply for low and moderate income families; the larger the proportion of subsidized units in the community, the weaker the economic base and the more difficult and costly it is to sustain an effective system of delivering good quality social, education, health and recreation services to new residents.

Recognizing the problems inherent in the financing of new community infrastructures, the Congress created the Title VII supplementary grant programs which allows HUD to "piggy-back" a grant of 20% of the projects costs to any State or local public body for those community development activities viewed as essential to developing the infrastructure of new communities. These grants

can be made in conjunction with thirteen federal programs, including urban mass transportation, highways, airports, public health facilities, libraries, recreation and open space lands, neighborhood facilities, and other public works facilities needed to strengthen a community's economic development potential.

As another form of financial assistance to the development of the new community infrastructure, the Congress also passed the public service grant program. This program was designed to provide three-year grants to local governments to fund a broad array of basic services essential to the viability and growth of a new community such as health, education and public safety services. Once again the federal infusion of funds was necessary because neither the residents of the new community nor the public body responsible for service provision would be able on the basis of their own resources to fully support these service systems.

Therefore, in assisting the unique community development activities for new communities, Congress provided three sources of funds: the basic HUD grants, the supplementary grants and the public service grants. As stated earlier, however, the Administration has not requested funds for the public service grant program.

Supplementary grants for public facilities as authorized under Section 718 have amounted to about $11.5 million for approximately 35 projects in 9 new communities. Although FY '73 reports are not yet final, this amount could have increased to $19 million by June 30th if all went well. This will leave roughly $5-10 million of appropriated, non-committed funds which will be lost to the program since the Administration has indicated its intent to terminate this form of assistance starting June 30, 1973.

The Administration's decision to terminate supplementary grants, plus HUD's categorical aid programs covering open space, water and sewer, and neighborhood facilities, has had and is having a very negative effect on existing developers who have, from the very beginning, been led to believe that both public facilities grants plus the supplementaries would be available to the local governments in which new communities are being developed. As a matter of fact, all the economic models for all projects approved so far, up to but not including Riverton, included public facility grants plus supplementaries, in anticipation that they would be made. In all the projects approved since Riverton, the developers had good reason to believe -- on the basis of their negotiations with

HUD, the law itself, plus Congressional intent -- that public facility grants, particularly supplementaries in varying degrees, would, in the normal course of events, be forthcoming.

1) New Community "Set Aside": With the intended termination of the categorical and supplementary grants, our developers and the impacted local governments are left stranded; if this situation is left unremedied, the effects may well be disastrous to the program. Neither potential successor to the grant programs, S. 1743 and S. 1744, makes any provision for the community development needs of new communities.

We would therefore recommend that any bill reported from this Committee include a community development "set aside" for new communities. We would expect that these funds would come not from the allocation to units of government but from the "discretionary fund" which remains to be distributed by the Secretary. The "set aside" would combine the functions of the basic grant, the supplementary grant, and the public service grant programs. "Set aside" grants, over and above the regular entitlement allocation, would be awarded to any unit of government responsible for community development activities in a new town.

Such a provision may help ease the burdens faced by local governments in parceling out their funds among competing development demands. It seems apparent that community development funds will be apportioned to respond to immediate needs and that local governments will not easily be able to attend to the prospective needs of new communities. The "set aside" will allow them the extra margin of funds needed to finance community development activities in new communities.

Ultimately, however, the resident/consumer will be served; with the community development funds it will be easier for the local government to finance the community facilities rather than the developer who would have to "front end" the costs and pass them on to the buyers in the price of the land.

In apportioning the "set aside," we would propose an amendment which would permit community development grants to be made to public bodies recognized by the Secretary to carry out community development programs in a new community. In most new communities, no city or municipal agency is authorized to undertake all necessary community development programs for the new community area. Instead, state or local laws grant jurisdiction to other public bodies for various community development programs. For example, in the development of the plans for the new community of Newfields, outside of Dayton, Ohio, the

State legislature passed enabling legislation for the establishment of the Community Authority which would act as a quasi-special district to provide certain community development activities and services to the residents of the new community, over and above those to be provided by the regular units of government. The clarifying language we suggest would make it clear that a body such as the Newfields Community Authority would be eligible for a community development grant for any activities which fall within the meaning of "eligible activities" in the legislation before us.

Based on the language in the legislation before us, we believe there are two strong factors which support our request for a new community "set aside." The first is the nature of the allocation formula and the second concerns the "hold harmless" provision.

(a) Allocation formula: The formulae in both pieces of legislation provide that entitlements be based on criteria which apply to existing conditions which include population, housing overcrowding and poverty conditions. We feel that this approach provides funds in an amount which will only perpetuate the wasteful, crisis-oriented urban growth patterns and policies which are now evident. New communities, through long term planning and development, are designed to correct this approach. Yet, local

governments which host new communities would be discriminated by the formulae since community development funds would be needed now to plan and provide for future needs. The "set aside" would correct this inequity by providing for these future needs. We would expect that if our recommendation for a new community "set aside" from the discretionary fund is approved, that the Secretary will, of course, allocate these funds based on his own determination of need rather than according to an allocation formula.

(b) Hold Harmless: "Hold harmless" provides that no community will experience undue hardship upon termination of the categoricals and implementation of program consolidation. In determining the "hold harmless" entitlement, the supplementary grant funds received by units of local government are not included in the calculation. We feel that communities such as the City of Chaska which received a basic grant of $400,000 and a supplementary grant of $160,000 for its open space program -- a program which will serve all residents including those who reside in the new town of Jonathon -- should be rewarded for receiving both grants. Since the "hold harmless" provision does not reward the communities, as we have suggested, the "set aside" will provide a source of funds to perform this function.

(2) Multi-year programming: Many new community projects, particularly those new-town-in-town projects which rely upon urban renewal for land clearance, write-down and development, are multi-year projects. To secure debt financing, developers must have some pledge that government funds will be available to undertake activities which will keep the community development process moving. We believe that local units of government must have some assurance that community development funds will be forthcoming on an annual basis so that they will be allowed to commit themselves to long-term programs. We have noted the loan provision in Section 9 of S. 1744 which permits the Secretary of HUD to make loans to State and localities to provide financing for planning and operating activities pending receipt by the locality of the grant funds and to provide interim financing for the construction of certain public facilities. To the extent that this provision permits authority for multi-year planning and programming, we support it and would urge that it be included in any bill reported from this Committee.

Furthermore, we note that the urban renewal loan authority program will be suspended by the legislation. We would much prefer that language be included in the bill which would permit continuation of this activity, either

as an eligible activity or with specific reference in Section 9 of S. 1744. As stated above, many new communities, particularly the in-town projects, are dependent upon this kind of government financing to insure the continual and consistent implementation of their development plans.

3) Eligible Activities: Because the new community development process depends so heavily upon the timely installation of all community facilities, we would therefore urge that the broadest possible interpretation be placed upon the nature of the community facilities which may be constructed or operated with community development grants. For example, the lack of funds in a school district or a library board may hold up the development of a neighborhood in the new community or the entire community itself.

We would therefore urge that school, library, hospital and other such construction be permissible activities under the Act where funds for these activities are not available through other sources. When funds are available through other sources or when the grant recipient is not permitted to engage in these construction activities, we believe that Section 4, subsection 13 in S. 1744, is an excellent fall-back position for the unit of government to encourage early or pre-servicing of new communities.

As stated above, we would recommend that the definition of community facilities be expanded and that the financial incentives provision be included in legislation reported from this Committee.

In addition, we also believe that grant recipients should also be able to use community development funds to buttress citizen participation efforts. One of the objectives of the Title VII program is to involve residents in the planning of the new community through citizens groups and community associations. Developers have supported these efforts and make provision in development plans for this input.

However, without experienced staff assistance from planners or managers, many of these community efforts result in stultification of the project rather than participation in it. In order to achieve the goals of the program we believe that "eligible activities" should be expanded to include financial assistance to the citizen/community associations to hire professional staff to help manage and assist groups with their deliberations and to help keep the community development process moving along.

D. TITLE VII PROGRAM

1. Suggested amendments: While these hearings are devoted primarily to the community development legislation, we would like to take this opportunity to recommend to the Committee some amendments to the Title VII program. Since enactment of the program in 1970, there have been no changes in the program and we feel that several are sorely needed. The amendments which appear below have been included by the Housing Subcommittee in H.R. 8879, the Housing and Urban Development Amendments of 1973, and we would urge that the Committee include them in any legislation which is reported from this Committee.

(a) Community Development Corporation (CDC) Structure: change the name of the CDC to New Community Development Corporation which more accurately reflects its jurisdiction and increase membership from five to seven years by adding two additional members.

Explanation:

The size of the board should be increased by two more members who will reflect the diverse groups interested in and knowledgeable about new community development. The major objective in increasing the size of the board is to create a balance in membership between the public and private sector.

works of art, to provide workshops that will encourage and develop the appreciation and enjoyment of the arts.

If the program is not revived and the community development "set aside" is approved, the above could be considered eligible activities under the Act.

(d) Expansion of land development definition: may include waste disposal installations, and community or neighborhood central heating or air conditioning systems.

Explanation

Central heating, air conditioning, and waste disposal facilities are not only appropriate but eminently desirable, particularly in high density developments, and ought to be encouraged. Also, it is possible such central facilities can act to reduce individual housing unit costs. Day care facilities should be eligible under the section without amendment; if HUD has ruled otherwise, some clarification is in order.

(e) Low and Moderate Income Housing: require Secretary to reserve housing assistance funds for use in connection with the Title VII projects.

Explanation

This amendment is to assure that new communities do not lose their fair share of housing funds for persons of low and moderate income merely because a new community requires longer lead time for planning and development than is required for a typical subdivision.

(b) Interest Differential Grants: increase interest differential grant to State land development agencies by 1/2%; authorize Secretary to make interest differential grants to eligible agencies even if it does not seek guarantee assistance.

Explanation

The 1/2 percentage point increase would compensate public developers for the higher interest rate that they obligate themselves to pay if they issue taxable bonds instead of tax exempt bonds. While there is some agreement that the current language in Title VII would permit this 1/2 percentage point it has become desirable to clarify the amount of the grant. By adding 1/2% increment to the grant payment, there will be a greater inducement to public agencies to participate in the program.

(c) Supplemental grants: include projects or programs funded under Section 5 of the National Foundation on the Arts and Humanities Act of 1965.

Explanation

Before the program was terminated last month, a wide variety of federal activities were eligible for supplementary grants. However, funds were not available for projects primarily involving the arts. If the supplementary grant program is revived, assistance would be limited to such items as the construction of buildings, the purchase of land and the acquisition of equipment and works of art, rather than being used to pay salaries on an ongoing basis and would include programs to foster American artistic creativity to commission

We appreciate this opportunity to testify before the Subcommittee and stand ready to assist the staff should any further information be needed or any questions arise about our position on the proposed community development grant program. If the Chair permits, we would like to reserve the right to submit additional material if further consideration of the legislation should warrant it.

Table I

Summary of New Communities Guaranteed by HUD[1] (Dollars in Thousands)

Community	Type	Guarantee Commitment Amount Date	Guarantee Issues Amount Date	Interest Rate	Population (projected)	Dwelling Units (projected)	Location
Jonathan, Minnesota	Satellite/ Growth Center	$21,000 2/70	$ 8,000 10/70[2]	8.50%	50,000 in 20 years	16,500 in 20 years	20 mi. S.W. of Minneapolis
			$13,000 6/72	7.20%			
St. Charles Communities, Maryland	Satellite	$24,000 6/70	$18,000 12/70	7.75%	75,000 in 20 years	25,000 in 20 years	25 mi. S.W. of Wash., D.C.
Park Forest South, Illinois	Satellite	$30,000 6/70	$30,000 3/71	7.00%	110,000 in 15 years	35,000 in 15 years	30 mi. S. of Chicago
Flower Mound, Texas	Satellite	$18,000 12/70	$14,000 10/71	7.60%	64,000 in 20 years	18,000 in 20 years	20 mi. S.W. of Dallas
Maumelle, Arkansas	Satellite	$ 7,500 12/70	$ 4,500 6/72	7.62%	45,000 in 20 years	14,000 in 20 years	12 mi. N.W. of Little Rock
Cedar-Riverside, Minnesota	New-Town-In-Town	$24,000 6/71	$24,000 12/71	7.20%	30,000 in 20 years	12,500 in 20 years	downtown Minneapolis
Riverton, New York	Satellite	$12,000	$12,000 5/72	7.125%	25,600 in 16 years	8,000 in 16 years	10 mi. S. of Rochester
San Antonio Ranch, Texas[3]	Satellite	$18,000 2/72	— —	—	88,000 in 30 years	28,000 in 30 years	20 mi. N.W. of San Antonio
The Woodlands, Texas	Satellite	$50,000 4/72	$50,000 9/72	7.10%	150,000 in 20 years	49,160 in 20 years	30 mi. N.W. of Houston
Gananda, New York	Satellite	$22,000 4/72	$22,000 12/72	7.15%	50,000 in 20 years	17,200 in 20 years	12 mi. E. of Rochester
Soul City, North Carolina	Free Standing	$14,000 6/72	— —	—	44,000 in 30 years	12,906 in 30 years	45 mi. N. of Raleigh-Durham
Harbison, South Carolina	Satellite	$13,000 10/72	— —	—	23,000 in 20 years	6,750 in 20 years	8 mi. N.W. of Columbia
Lysander, New York	Satellite	[4]	[5]	[5]	18,300 in 8 years	5,000 in 8 years	12 mi. N.W. of Syracuse
Welfare Island, New York	New-Town-In-Town	[4] 12/72	— —	—	18,000 in 7 years	5,000 in 7 years	in New York City
Shenandoah, Georgia	Satellite/ Growth Center	$40,000 2/73	— —	—	70,000 in 20 years	23,000 in 20 years	35 mi. S.W. of Atlanta

[1] Source: Department of Housing and Urban Development, as of February 1973.
[2] Guaranteed under Title IV; all other guarantees under Title VII.
[3] Contingent on water protection studies.
[4] Eligable for 20% grant from HUD supplementing basic federal grant programs.
[5] First to receive a determination of eligibility for grant assistance rather than federal guarantee of its debt; receives federal assistance under Title VII, Housing and Urban Development Act of 1970.

Table II

Summary of New Communities Completing the HUD Application Process[1]

Community	Type	Guarantee [2] Commitment Requested	Population (projected)	Location
Beckett, New Jersey	S	$35,000	60,000 in 20 years	So. of Camden Gloucester County
Newfields, Ohio	S	$31,000	33,500 in 20 years	West of Dayton: Montgomery County
New Franconia, Virginia	S	$45,000	30,640 in 10 years	25 mi. SW of Wash., D.C.: Fairfax County
Oak Openings, Ohio	S	$31,000	50,000 in 20 years	near Toledo
Pontchartrain, Louisiana	NTIT	$20,000	80,000 in 20 years	25 mi. east of New Orleans
Amherst/Ransom Oaks, New York	S	$47,000	n.a. [3]	S.E. of Buffalo: Erie County
Rancho San Diego, California	S	$30,000	65,376 in 15 years	East of San Diego
Stansbury Park, Utah	S	$25,000	70,000 in 10-15 yrs.	25 mi. west of Salt Lake City
Fort Lincoln, Wash., D.C.	NTIT	n.a.[3]	16,000 in 10 years	Washington, D.C.
Midland, Kentucky	FS	$15,000	50,000 in 30 years	Between Lexington and Huntington Tri-State

[1] Source: Department of Housing and Urban Development, February 1973
[2] Dollars in thousands
[3] Not available

Table II (Continued)

Community	Type	Guarantee [2] Commitment Requested	Population (projected)	Location
Nouville, Louisiana	S	$30,636	32,000 in 20 years	7 mi. south of Baton Rouge
Kansas City West, Kansas	S	$25,000	100,000 in 20 years	Wyandotte & Leavenworth Counties
San Antonio NTIT, Texas	NTIT	n.a.	19,415 in 20 years	San Antonio
Kane County, Illinois	S	n.a.	65,000 in 20 yrs. (est.)	40 mi. west of Chicago
Pattonsburg, Missouri	GC	n.a.	25,000 in 30 years	N.E. of St. Joseph, Daviess County
Shelby Farms, Tennessee	NTIT	n.a.	65,000 in 20 years	Memphis
Tree Farm, Florida	S	$ 9,000	30,000 in 20 years	No. of Pensacola: Escambia County
Timberlake, Tennessee	S	n.a.	31,500 in 20 years	30 mi. SW of Knoxville
Deer Run, Texas	GC	$ 6,000	40,000 in 30 years	100 mi. from Dallas and Shreveport, La.
Murrock, Arkansas	FS	$30,000	62,000 in 20 years	60 mi. NW of Little Rock

Map I

Location of New Communities



● New Communities Approved by HUD

A Jonathan
B St. Charles
C Park Forest South
D Flower Mound
E Maumelle
F Cedar-Riverside
G Riverton
H San Antonio Ranch
I Woodlands
J Gananda
K Soul City
L Lysander
M Harbison
N Welfare Island
O Shenandoah

○ New Communities Completing the HUD Application Process

A Beckett
B Brookwood
C New Franconia
D Oak Openings
E Ponchartrain
F Amherst/Ransom Oaks
G Rancho San Diego
H Stansbury Park
I Fort Lincoln
J Midland
K Nouville
L Kansas City West
M San Antonio NTIT
N Kane County
O Pattonsburg
P Shelby Farms
Q Tree Farm
R Timberlake
S Deer Run
T Murrock

TABLE III

Guarantees, Loans, Grants and Other Assistance Authorized by Title VII (in millions)

Authorizing Section	Purpose	Authorized by Congress	Requested by HUD	Appropriated by Congress	Committed
713	Authority to guarantee obligations issued by private or public developers	$50 single $500 total			$293.5
713	Interest Differential Grants	as necessary	- 0 -	- 0 -	- 0 -
714	Interest Loans	$20 single $240 total	- 0 -	- 0 -	- 0 -
715	Public Service Grants	as necessary	- 0 -	- 0 -	- 0 -
718	Supplementary Grants for Public Facilities 1/	$36 (71) $66 (72) $66 (73) 2/	$30	$25 3/	$11.5
719	Technical Assistance	as necessary	- 0 -	- 0 -	- 0 -
720	Special Planning Assistance	$10 4/	- 0 -	3/	- 0 -
735	701 75% Planning Grants to States and Regions for Development of Rational Urban Growth Patterns, including New Communities	as necessary 5/	- 0 -	- 0 -	- 0 -

1/ Federal programs eligible for supplementary grants include: highways, mass transit, airports, hospitals, libraries, parks and open space, sewer and water, neighborhood facilities, wastewater treatment plants, and certain other educational facilities, plus public works in areas of high unemployment and in rural areas.

2/ After 1973 as necessary (1974 and after). Funds to remain available until appropriated and expended.

3/ Includes $17.5M appropriated in FY '72 or FY '73 which was also available for special planning assistance.

4/ Funds to remain available until appropriated and expended.

5/ While no 75% grants as authorized under 735 have been made, 2/3 planning grants under 701 have been made which have benefited Newfields, Ohio; Flower Mound, Texas; Soul City, North Carolina; Riverton, New York; Cedar-Riverside, Minnesota; Park Forest South, Illinois; and St. Charles Communities, Maryland. Also, the State of New Jersey has received a grant to develop statewide policies for new communities.

League of New Community Developers

DEVELOPMENT MEMBERS

Audubon, New York

Beckett New Town, New Jersey

Brier Hill, Pennsylvania

Brookwood, Ohio

Cedar-Riverside, Minnesota

Columbia, Maryland

Flower Mound, Texas

Gananda, New York

Harbison, South Carolina

Jonathan, Minnesota

Lysander, New York

Maumelle, Arkansas

Midland, Kentucky

New Franconia, Virginia

Nouville, Louisiana

Oak Openings, Ohio

Orangewood, Florida

Park Forest South, Illinois

Pattonsburg, Missouri

Pontchartrain, Louisiana

Rancho San Diego, California

Riverton, New York

Saint Charles, Maryland

San Antonio Ranch, Texas

Shenandoah, Georgia

Soul City, North Carolina

Stansbury Park, Utah

Tree Farm, Florida

Welfare Island, New York

West Valley, Illinois

The Woodlands, Texas

Mr. HONTS. I would like to compliment this committee and the chairman for their leadership in the past with respect to the New Communities Act of 1968 and 1970.

As you know, those two acts have been the basis by which 15 new communities have been approved and are in the process of being developed.

Two basic elements of that program, provision of Federal guarantees of loans and Federal grants, have played a vital role in changing the community development process in this country.

Now, to skip most of the testimony, a general summary of how the program has worked and a general evaluation of some of both the opportunities and problems are included in our statement. We would like to address ourselves directly to the Better Community Act and to the various aspects of that act as that will impact on the new communities program.

The Better Communities Act was based on a formula. On page 22 of the statement that has been introduced into the record a general discussion takes place of our understanding of that formula.

The Better Communities Act does not contain in its formula any provision for assistance to new communities which would replace the present basic and supplemental grant provided under title II of the 1970 Housing and Urban Development Act.

Accordingly, we would urge that some form of "set aside" take place in the Better Communities Act allocated toward the needs of new communities if the Congress in fact feels that the new communities program is a vital element in the overall community development needs of this Nation, as we believe they do.

There are two other elements that are mentioned in our statement. The need for multiyear programing in any community development project is discussed. We feel this provision is needed in order to insure that funds can be commited for long enough periods of time to provide needed continuity as the project evolves.

In addition, new-town-in-town projects depend on some type of urban renewal grant and loan arrangement, and it is important that the Better Communities Act take into account that need if there are to be central city new-town-in-town projects.

In summary, we appreciate your time, we appreciate your help in the past, and we state that our primary purpose here is to ask that the Better Communities Act formula be amended in a way that allows "set aside" to meet the present needs for future cities.

Senator TOWER. Thank you, Mr. Honts. I appreciate your testimony, and I certainly know that your testimony carries the ring of authority because I know of your experience in Texas.

We appreciate your appearance here today.

Would Mr. Freeman care to make any supplementary statement?

Mr. FREEMAN. No, sir; I think Bob has pretty much covered our feelings, and with the formal statement being introduced into the record, I think that probably adequately covers it.

Senator TOWER. Thank you, Mr. Freeman.

Thank you very much, gentlemen.

Mr. HONTS. Thank you, sir.

Senator TOWER. It was requested that a statement of Congresswoman Abzug be inserted in the record at this point.

[The statement follows:]

STATEMENT OF BELLA S. ABZUG, REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I welcome the opportunity to address the Subcommittee on Housing and Urban Affairs regarding proposed community development and housing programs. The Subcommittee is to be commended for the value of its past work and the diligence with which it has pursued the matters presently before it.

As I represent a Congressional District in the City of New York, I am deeply interested in the future of community development and housing programs as they affect urban America, especially New York. It is now imperative, in the face of the administration's moratorium on Federally subsidized housing programs, that Congress move quickly to pass new comprehensive legislation in these areas.

The moratorium, if permitted to last 18 months, would add greatly to the frustrations of low and moderate income families who are in dire need of better housing. In New York City, 75% of low and moderate income housing is planned for urban renewal and Model Cities areas. Approximately 12,000 units which are able to be constructed on urban renewal and neighborhood development sites are unfunded. It is nothing short of criminal that this nation, so rich and so innovative, can so ignore the basic needs of its least affluent citizens. We who still believe in the 1949 Housing Act's promise to provide decent housing in suitable neighborhoods for all Americans, are left to hope that the recent District Court decision requiring the release of impounded housing funds will be upheld, and that these funds will begin to flow without too long a delay.

For two years the Congress has been attempting to pass legislation concerning community development and housing programs relevant to the needs of our citizens. Your subcommittee is presently considering the administration's Better Communities Act (S. 1743), the Community Development Assistance Act (S. 1744) and the Housing Act of 1973 (S. 2182). I should like to comment on these bills.

HOUSING AND COMMUNITY DEVELOPMENT INTERDEPENDENCE

First, I should say that community development and housing programs must not be considered as separate and distinct entities. For each to be successful, especially in providing decent housing in a suitable living environment for low and moderate income families, they must be dependent upon one another. Not too long ago we thought of the Urban Renewal Program as one merely concerned with slum clearance. Today, our sights have broadened so that we think in terms of community development—not merely the elimination of a slum, or the construction of a building, or the preservation of a single neighborhood. Rather, we are speaking of preserving whole communities, for with their salvation rests the salvation of entire cities.

One of the major failings of the Better Communities Act (S. 1743) is that nowhere does it recognize the interdependence of housing and community development. The Community Development Assistance Act (S. 1744) does take a long stride toward recognition of this principle by its requirement that applications by community development agencies contain an outline of the housing needs of communities, and its provision that the Secretary of HUD shall reserve, where necessary and feasible, funds to meet the housing requirements specified in the application. We must never lose sight of the fact that communities do not exist but for the people who reside within them. We may tear down all of the slums, we may provide excellent recreational facilities, social service centers and water and sewer facilities—but if we do not provide for decent housing, there will be no community.

FINDINGS AND PURPOSE OF S. 1743 AND S. 1744

My overriding concern is that any community development legislation which is enacted into law serve the needs of low and moderate income families. At the risk of sounding like an alarmist, I am uncomfortable with both S. 1743 and S. 1744, in that their findings and purpose speak in overly broad generalities. I do not know whether it is feasible to be any more specific than is S. 1744, with regard to the intended uses of community development funds. At least that bill attempts to speak in terms of national priorities. However, I believe that language can be developed which would not be so narrow as to be overly restrictive, but which

would clearly mandate that community development funds are to be used in those blighted or transitional areas for which they are intended. I believe such language would go a long way toward preventing future abuses in the program.

APPLICATIONS

One of the most frequently voiced complaints about the categorical grant approach concerns its burdensome, red tape-ridden application process. In reaction to that, and in an attempt to place the ultimate responsibility for a community development program upon local officials, the Better Communities Act requires no formal application. Rather, it requires a statement of community development objectives and the projected use of funds. The input of the community into such a statement is minimal if it exists at all.

S. 1744 requires an application which does not seem to be overly burdensome or unnecessarily detailed. It is an attractive requirement in that it mandates community participation in its completion.

I believe that an application as a prerequisite for receiving community development funds is an absolute necessity. The Committee should carefully evaluate the requirements of any such application to be sure that it will not become burdensome, time consuming or too technical for the local community filing the application, or for the HUD officials who must read and approve it.

There are a number of advantages to an application requirement. Applicants would be obliged to address broad national objectives as outlined in S. 1744. Also, as provided in S. 1744, citizens would participate in plans for their own future. A public record would be established to hold local officials and the community development agency accountable to the public, to HUD and to the Congress. Progress of the plans would be monitored and evaluated as necessary to assure compliance with the spirit and intent of the laws.

FUNDING

I am concerned that the formulas and funding mechanisms employed by both S. 1743 and S. 1744 may not be equitable for New York City, or for a number of older urban centers.

Under the hold-harmless provisions of S. 1743, HUD estimates that in the first two years of the program, New York City would receive $91.3 million, based on its past five years of experience in the categorical programs being phased out. New York City's Housing and Development Administration estimates that New York ought to receive $99.3 million. However, if we consider that New York City will receive very little funding for these programs in FY 74, if the administration has its way, then the average for the next three years will be approximately $60.7 million. This compares quite unfavorably with the $115 million the City received in FY 72.

New York City's formula share under the Better Communities Act is set at approximately $132 million. With redistribution of State funds and the phase down of other cities' hold-harmless funds, it is estimated that by FY 79 New York may receive $149.1 million. I am also advised that under the S. 1744 formula the City would receive $127.3 million with no "transitional year." These figures pale in light of New York City's requirements of more than $240 million for FY 74 under existing categorical grants-in-aid programs (not including urban renewal or neighborhood development).

A further problem is evident, on a more national basis, when we consider that by the fifth year of the Better Communities Act program, the following older metropolitan cities, to name just a few, will be receiving less money than their previous program experience funding provides: Baltimore, Cleveland, Milwaukee, Pittsburgh, Newark, Washington, D.C. The "big gainers" seem to be the newer and faster growing cities of the South and Southwest. While I have no objection to those cities' benefiting from the community development funding procedure (perhaps they can plan to avoid the problems of the older metropolitan areas), it offends my sensibilities to learn that those cities with long term, chronic inner city problems will actually be losing funds under the S. 1743 formula.

I would propose, to rectify this situation, that an additional factor be added to the formula. That factor would be the extent of housing stock 40 years of age and older. The effect of this factor on entitlements to cities is unclear but I would urge the Committee to run the existing formulas of S. 1743 and S. 1744,

along with my proposal, through the HUD computers to determine what changes would occur. I believe that the result would be a more equitable distribution of funds based upon a more accurately assessed need.

SECTION 312 REHABILITATION LOANS

The Better Communities Act would include current section 312 rehabilitation loans in the special revenue sharing provisions. I oppose this change. I prefer to see section 312 either stand separately or be consolidated into a purely "Rehabilitation" chapter of comprehensive housing legislation.

Although the 312 loan limits have, in the past, been too low for extensive use in high cost areas such as New York City, I believe this program has proved viable for the rehabilitation of many homes. Section 312, or its successor, should be defined in such a way as to allow local costs to be the determinant of rehabilitation loan ceilings rather than an arbitrary national figure setting those ceilings.

Mr. Chairman, these are some of my thoughts concerning the community development bills, S. 1743 and S. 1744. I should now like to discuss briefly S. 2182, the Housing Act of 1973.

A number of changes which S. 2182 would make in existing federal subsidy programs are welcome. I will however, reserve judgment on the bill itself, as I feel that a consolidating approach similar to that of the community development bills may actually be more relevant to the housing needs of low and moderate income families in urban America.

In the past, New York City has been unable to take advantage of section 235, Homeownership Assistance, either for new or existing housing or for rehabilitation. The basic problems were the mortgage ceiling limitations and the family asset limits it imposed. While much of this has been improved by section 402 of S. 2182, I am concerned that section 402 will still see limited use in a city like New York. That is, the cost of land and single family housing would be so high that poor and moderate income families could scarcely afford the upkeep of such homes. I would prefer to see at least a consolidation of the current 235 and 246 programs (sections 402 and 502 of S. 2182). Localities could then use these funds in a manner most suited to their lifestyles and the forces of their economies. Consolidation would also allow cities like New York to develop more housing than is currently possible under section 236

I do not expect New York City to develop only multiple family dwellings. I am quite confident that some of the funds under such a consolidated program would be used innovatively in implementing the purposes of section 235. However, given the housing problems of cities like New York, it would seem more consistent with our national goals to allow such cities the total wherewithal to provide decent housing—whether that housing be single family or multiple dwelling. To proceed otherwise would be to continue the categorical system, which is not totally applicable to all localities and which is antithetical to the community development bills of both the administration and Senator Sparkman.

I will now comment on some aspects of S. 2182.

ALLOCATION OF HOUSING ASSISTANCE APPROPRIATIONS

I commend S. 2182 for earmarking subsidy appropriations to metropolitan areas and metropolitan cities. Perhaps for the first time, cities will be able to rely on a set amount of annual appropriations. This would go far toward aiding planning processes and giving the citizenry a better idea of what can be expected in the way of housing.

DEFINITION OF LOW INCOME

S. 2182 defines low income as 90% of median income within a SMSA. In general, I believe this definition is workable, but I am glad to see that the Secretary of HUD may adjust the figure area by area. I think such flexibility is especially important in areas like New York where, because of a very high cost of living, families with incomes considered moderate elsewhere would for all intents and purposes be considered low income in the New York area. I would expect the Secretary to exercise this option if he determines it to be in a community's best interest.

REHABILITATION

Both sections 402 and 502 of S. 2182 provide some funding for the rehabilitation of existing housing stock. Section 402 provides that not less than 10% of funds appropriated are to be used for substantial rehabilitation.

I believe that rehabilitation of our existing housing stock is vital and that it deserves a separate chapter in comprehensive housing legislation. The fastest and least expensive way to provide decent, safe and sanitary housing, and, at the same time, to save neighborhoods in danger of deteriorating is through the rehabilitation of our sound housing stock.

I have introduced into the House of Representatives H.R. 227, the "Multifamily Housing Rehabilitation Act of 1973." It would authorize the Secretary of HUD to provide loans to tenant and other non-profit organizations to assist in the rehabilitation of sub-standard multifamily housing for occupancy by low income and moderate income persons, or for purchase and occupancy by such persons as members of a tenant cooperative.

My bill embodies, I believe, a unique rehabilitation technique. I would urge the committee to study it, and to study other ways in which rehabilitation could be made attractive to owners of both single family and multiple dwelling units. Rehabilitating structurally sound but neglected housing is more efficient and economical than continuing the neglect or replacing such housing with expensive new units.

Finally, Mr. Chairman, I would like to bring to your attention H.R. 3210, which I introduced into the House on January 30, 1973. This bill would prohibit discrimination on the basis of sex or marital status in the granting of mortgage credit. For too long, women have been denied decent housing of their choice, and it is my intent to accord them the financial responsibility they are able and willing to undertake.

Mr. Chairman, I hope that the Committee will give my thoughts and proposals due consideration prior to and during the mark-up.

Senator TOWER. The committee will stand in recess until 10 o'clock tomorrow.

[Whereupon, at 11:40 a.m. the subcommittee recessed, to reconvene at 10 a.m., Thursday, July 19, 1973.]

1973 HOUSING AND URBAN DEVELOPMENT LEGISLATION

THURSDAY, JULY 19, 1973

U.S. SENATE,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:15 a.m., in room 5302, Dirksen Senate Office Building, Senator John Sparkman (chairman of the subcommittee) presiding.

Present: Senators Sparkman, Johnston, Biden, Packwood and Taft.

The CHAIRMAN. Let the committee come to order, please. I would like to get started and move as far as we can. We're going to have some rollcalls and the first one is at 10:15.

Our first witness this morning is Thomas Bomar, Chairman of the Federal Home Loan Bank Board.

We are glad to have you here, Mr. Chairman, and we shall be pleased to hear from you.

STATEMENT OF THOMAS R. BOMAR, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD, ACCOMPANIED BY DICK PLATT, DIRECTOR OF THE OFFICE OF HOUSING AND URBAN AFFAIRS FOR THE FEDERAL HOME LOAN BANK BOARD; BILL NACHBAUR, ASSISTANT GENERAL COUNSEL; AND MICHAEL WESTGATE, ASSISTANT TO THE DIRECTOR, FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

The CHAIRMAN. Identify the gentlemen with you, if you would.

Mr. BOMAR. Yes, sir. On my left is Dick Platt, Director of the Office of Housing and Urban Affairs for the Board. On my far right is Bill Nachbaur, Office of General Counsel. Immediately on my right is Mr. Mike Westgate; he is with the Federal Savings and Loan Insurance Corporation.

All three of these gentlemen are considably more knowledgeable than I in many of the areas you may have interest in, so I asked them to sit in with me to answer any questions you may have.

The CHAIRMAN. We are glad to have all of you and you may proceed as you wish. All of you understand that your prepared statements will be printed in the record in full.

Mr. BOMAR. We have submitted a statement for the record, Mr. Chairman, and what I would like to do this morning, with your permission, is to summarize that statement and bring out the key points to the committee's attention.

The CHAIRMAN. We would be very glad for you to do so.

Mr. BOMAR. Thank you. You have asked that the Board direct its remarks to S. 971, which would enact the Housing Preservation Act of 1973.

With regard to the specific provisions in that bill, it is our feeling that HUD would make recommendations which, among other things, will relate the preservation of existing housing stock and the decline of older homes.

Therefore, we will not make specific comments with regard to specific provisions and we hope that the committee will consider the administration's proposals before you take final action on this very important matter.

Let me say preliminarily with regard to improvement in the existing housing stock, that there are a number of statutes that deal with this area.

Savings and loan companies are able to make home improvement loans up to $5,000. We have the FHA title I for home improvement. HUD has authority to make grants, to my understanding, in urban renewal areas. We have certain provisions in the tax code which provide certain incentives for rehabilitation.

But the fact is that we still have a very serious problem in this regard, so it is obvious that these things cumulatively are not sufficient and there is need for additional action.

The main thing I would like to do this morning, Mr. Chairman, for the committee, is set out in capsule form an approach the Board has been taking in this regard and tell you a little about our operations and our efforts to make some progress in improving the existing housing stock.

About 5 years ago, there was a plan instituted in Pittsburgh called the neighborhood housing services program. This program has been quite successful and the Board picked up on what was apparently a successful experiment. Our Office of Housing and Urban Affairs has been attempting to foster these kinds of service facilities around the country. They have been successful in establishing some of these.

The way it works is this: There are several elements—first, the program acknowledges the fact that you cannot just improve houses and solve the problem. You have to deal with this on a coordinated basis and it is just as important to improve the neighborhood and municipal facilities as it is to improve the houses, and you have to do that on a coordinated basis.

So, the way the program works is that the cooperation of the municipal government, local government, is solicited; local financial institutions are brought in, as well as some grants from private foundations.

Now, the parts each play are this: The local governments are asked to infuse a greater supply of municipal services into this area, greater fire and police protection, improvement of streets, help with trash cleanup, and so forth. The local institutions sometimes put up the development money, but they cooperate with this neighborhood housing services agency, or group—it is really a neighborhood group—by agreeing to make improvement loans in this area that are bankable. They are not asked to minimize their standards, just to lend in this area to people who are qualified.

Third, this revolving high risk loan fund is established with foundation grants. This fund is run by a group of neighbors, the people within the target area for the development of the neighborhood, and they make the selection as to who will get these loans that are not bankable and under what terms and conditions.

Linking these three elements together is a small staff, usually two or three people, something of that nature, and they help coordinate these activities; they help the homeowners in deciding what kind of improvements to make.

One of the things the municipality does in addition to these other things is help point out areas where code enforcement is necessary. So, if a homeowner is advised that he has some upgrading that needs to be done on his property, he can come to these people in this neighborhood cooperative group; they will assist him in either getting a loan from their local savings and loan, if it is a bankable deal, or if not, present it to the high risk loan fund supervised by these community people, help them in making the repairs, selecting contractors and doing these things to get their house upgraded.

So far, through the Board's efforts we have a program operating in Washington, D.C.; it is in the Anacostia area. There is one in Cincinnati. The third one is operating in Oakland.

In addition to that, we have these opening in Dallas and—where are the other two?

Mr. PLATT. Plainfield, N.J., and Boston.

Mr. BOMAR. This is not something that we are seeking legislation on at this time. We feel it is better to proceed as it is. We do not want the excessive publicity on this program; we would rather continue to operate as we are now to be sure of the results that it can produce and not create expectations beyond that which it can produce.

This cannot be a solution in and of itself. We are encouraged with what we have seen so far and are enthusiastic about fostering more of these kinds of programs. I hope that they will be productive along with a great many other efforts.

Mr. Chairman, that is the statement that I have now.

The CHAIRMAN. Thank you, very much. We appreciate that statement, Mr. Chairman. It becomes a pretty complex business. Isn't that right?

Mr. BOMAR. Yes, sir.

The CHAIRMAN. Trying to get better housing for more people.

Senator Packwood?

Senator PACKWOOD. I have no questions, Mr. Chairman.

That was a very good statement.

The CHAIRMAN. Senator Cranston had questions he wanted to propound, but he has not been able to get here yet.

I wonder if I could submit these questions to you, and if you would answer them for the record?

Mr. BOMAR. Yes, sir; I would.

The CHAIRMAN. Here is one that I might ask; it says: "Could you briefly describe how the neighborhood housing services program works? Do you believe it has been helpful in encouraging S & L's to reinvest in the inner city? Does the Office of Housing and Urban Affairs plan to expand this program, or is it moving in other directions?"

Senator Cranston makes reference to an article that appears in the Oakland Tribune. He says, "It carried a story which was of great interest to me, entitled, 'Ten Million to Halt Blight.' "

The article described how a neighborhood housing service committee with funds pooled by 26 savings and loan associations was making grants and loans to low-income homeowners for rehabilitation in the East Oakland area.

I understand that the neighborhood housing services program is run by the Board's Office of Housing and Urban Affairs. So, it is right along the line that you were talking about. I do not know whether you need to give any further discussion of it; just refer Senator Cranston to what you already said.

Mr. BOMAR. I have covered the basics of how it works, Mr. Chairman, and we will be glad to answer any questions that he has.

The CHAIRMAN. I will see that he gets the substance of your testimony, sir.

Mr. BOMAR. Thank you, sir.

The CHAIRMAN. Can you tell us how your agency is organized to handle this program? I believe you said something about a unit of the Housing and Urban Affairs.

Mr. BOMAR. Yes, Mr. Platt is Director of that office.

The CHAIRMAN. How does that tie in with the Housing and Urban Department? That is HUD?

Mr. BOMAR. I believe Mr. Platt could answer that question directly.

Mr. PLATT. Mr. Chairman, we are in constant contact with HUD. As you know, over the last 6 months they have had a series of task forces working on housing programs. We try to keep informed as to what they are doing and to keep the Board aware of their efforts. We also——

The CHAIRMAN. So, there is coordination?

Mr. PLATT. There is a loose coordination at this point in time, yes, sir.

The CHAIRMAN. Very well.

I will make these questions available to you and if among you you could prepare answers for the record, I am sure Senator Cranston will appreciate it.

Mr. BOMAR. Yes, sir.

[Complete statement of Mr. Bomar and answers to questions of Senator Cranston follow:]

STATEMENT OF THOMAS R. BOMAR, CHAIRMAN FEDERAL HOME BANK BOARD

The Federal Home Loan Bank Board welcomes the opportunity to appear before you today as you consider various pieces of legislation affecting housing. You have asked that I direct my remarks to S. 971 which would enact the "Home Preservatiton Act of 1973." I expect that the Department of Housing and Urban Development will be making recommendations in the housing area which, among other things, will relate to the preservation of our existing housing stock and the decline of older, but still stable and structurally sound, neighborhoods. Therefore, I will not comment on the specific provisions of S. 971 at this time. I hope you will consider the Administration's proposals relating to this problem before you take final action. I agree however that the problems which the bill addresses are important.

The bill focuses on the prevention of our existing housing stock rather than on new housing construction. Used housing, at any given time, is more important in the housing market than new. The nation's housing supply increases at an annual rate of two or three percent. In our efforts to meet the nation's need for housing, abnormal losses from the housing stock can cancel gains made by

new construction. Despite the fact that 1972 was another record year in terms of housing starts, housing deterioration and abandonment ate away some of the progress we made as a nation toward meeting our housing needs. The statement made by Senators Taft and Cranston when they introduced this bill dramatized the magnitude of the loss. In some places, housing units are being abandoned faster than they are being built. On the other hand, some areas are facing net outflows of population.

There are statutes now on the books which focus on the improvement of existing homes. Section 5(c) of the Home Owners' Loan Act of 1933, for example, authorizes federal savings and loan associations to make home improvement loans of up to $5,000. Under the National Housing Act HUD is authorized to insure home improvement loans. Other statutes authorize HUD to make rehabilitation grants in urban renewal areas. Certain tax provisions encourage the improvement of existing housing for low income tenants.

The fact that a problem exists despite the existence of all these and other programs, we believe, is evidence of the fact that the problem is deep-seated and probably cannot be solved just by focusing on housing. Nonetheless, some housing programs have achieved success in preserving housing quality.

One such program which is not federally sponsored takes a coordinated approach to the problem and deserves your attention. I refer to the Neighborhood Housing Services (NHS) Program which has been successful in Pittsburgh for the past five years. A combination of community commitment, financial institution involvement, a city building code compliance program, a high risk revolving loan fund, and a small but highly competent counseling and technical assistance staff has "turned around" Pittsburgh's Central Northside, a neighborhood that can no longer be classified as "declining." The program has resulted in improved housing, rising property values, increased real estate activity, broadened lending by financial institutions, and a growing community pride and confidence.

An NHS program involves residents of the deteriorating neighborhood, local government officials, and local financial institutions in a concerted cooperative effort to revive a neighborhood. The program focuses on relatively stable moderate-income neighborhoods that require a substantial financial investment and a commitment of local government to increase code enforcement and municipal services. Local financial institutions agree to make home improvement loans to neighborhood home owners without necessarily lowering their underwriting standards. A neighborhood group administers a revolving high risk loan fund to make loans to neighborhood home owners whose credit at the financial institutions is not sufficient to warrant a loan. The fund comes from foundation contributions. An NHS also provides counseling and management services to assist low- and moderate-income persons with the problems of home ownership.

When a neighborhood is deteriorating, home owners are reluctant to put more money into their homes and lenders are reluctant to lend. Neither the home owner nor the lender can recover the added investment so long as the deterioration of neighboring properties drags down the value of the improved property. An NHS type of program overcomes this reluctance since the home owner and the lender know that the city and other owners and lenders will participate in the program and upgrade the whole neighborhood.

Over the past year and a half, the Board's Office of Housing and Urban Affairs, through the Federal Home Loan Banks and in coordination with the federal and state bank regulatory agencies and the Federal Reserve Banks, has been encouraging community groups, local officials, and financial institutions in other cities to establish NHS programs. NHS programs are operational—although still very new—in Washington, D.C., Oakland, California, and Cincinnati, Ohio. Other programs are in the formative stage in Plainfield, New Jersey, Dallas, Texas, and Boston, Massachusetts. Numerous other cities have expressed an interest in forming NHS programs. The Board is not requesting any legislation at this itme related to the NHS program. In fact, the Board does not wish to see these efforts over-publicized or expectations raised beyond what the program can actually accomplish. I simply wish to point out one way the problem is being solved at the local level.

It is not the Board's view that NHS programs will solve the problem alone. On the other hand, in the Board's view, methods must be developed to involve the private sector more heavily in the massive job of rehabilitating and maintaining the nation's housing stock. NHS is one method that has been successful in mobilizing the community, financial and municipal resources necessary for the task.

The Office of Management and Budget advises that it has no objection to this statement.

JULY 19, 1973.

Hon. THOMAS R. BOMAR,
Chairman, Federal Home Loan Bank Board, Washington, D.C.

DEAR MR. CHAIRMAN: I was very sorry that I was unable to hear your presentation before the Housing Subcommittee on the Neighborhood Housing Services program of the Federal Home Loan Bank Board. I have followed with interest reports from Oakland which describe how this program is helping low income homewoners to bring their houses up to code standards. This is, as you know, a primary goal of the Home Preservation Act of 1973, legislation I have introduced with Senator Taft.

I have several questions regarding the Board's program and would appreciate your responses for the record.

1. How many units have been rehabilitated under the Neighborhood Housing Services program?

2. Is the Title I home improvement loan the major source of assistance or do more families rely upon the high risk loan fund?

3. Although the program is confined to a designated code enforcement area, does investment and rehabilitation activity spill over to adjacent areas?

4. Please explain the counseling service performed by the Neighborhood Housing Service agency.

5. Has your program suggested ways of shifting more responsibility for processing loan applications to lenders when FHA loans are involved?

I look forward to your reply.

With best wishes,

Sincerely,

ALAN CRANSTON.

FEDERAL HOME LOAN BANK BOARD,
Washington, D.C., July 27, 1973.

Hon. ALAN CRANSTON,
U.S. Senate Committee on Banking, Housing and Urban Affairs,
Washington, D.C.

DEAR SENATOR CRANSTON: I appreciate the opportunity to respond to your letter of July 19, 1973, concerning Neighborhood Housing Services, which I understand will be included in the hearing record.

The NHS approach is one of many local efforts currently underway to mobilize private sector resources to deal with housing deterioration. It is my hope and expectation that new legislation will enhance the effectiveness of this and other local, private approaches t› neighborhood revitalization.

We are encouraged by the initial response to the NHS concept in the several cities where it has been introduced, and we believe significant results will be achieved as the program takes hold. However, the concept is not a panacea, but simply a small step in the right direction.

Patient, dedication, skill, and dollar resources are basic ingredients which must be available in order for an NHS to get off the ground. After eighteen months of FHLBB effort, six cities have initiated the program. Three have actually incorporated and are staffed (Oakland, Cincinnati, and Washington, D.C.); and three (Dallas, Boston, and Plainfield, New Jersey) are well along in the process leading toward the establishment of an NHS. A number of additional cities have shown strong interest in the program, among which are Indianapolis, Denver, Seattle, Hartford, and Baltimore to name only a few.

Presently, however, the only NHS with a significant 'track record' is found in Pittsburgh, where the effort has been in operation for five years. Our answers to your specific questions are therefore based on information from this city alone.

Question One

Most of the rehabilitation generated by NHS's activity is financed through the private sector and exact statistics have not been maintained. However, it is estimated that of the 4,000 homes in the neighborhood, about one-half of those needing rehabilitation have been completed with the result that in this target area compliance with local codes has swung from a negative 80% to a positive 80% in five years. A reasonable estimate of the total number of homes rehabilitated, through both code enforcement and voluntary compliance, would be in the range of 1,200 units.

Question Two

A preponderance of the financing arranged so far by this NHS has involved bankable loans. These have consisted, in descending order of frequency, of conventional home improvement loans, Title I FHA home improvement loans, mortgage refinancing, and new mortgage loans. Direct loans from the high-risk revolving loan fund have been made to those homeowners who did not qualify for bankable loans on flexible terms and at rates which were required to accomplish the necessary work.

Question Three

It is our hope that considerable spillover will result from this program, and that it can move through a number of "gray area neighborhoods" in a given city. Because of the large area in Pittsburgh and the relatively severe deterioration there, the process has not been a rapid one. Some spillover has occurred, however, into an adjacent neighborhood where the NHS staff has assisted a number of homeowners with financing. Another significant effect is the replication of NHS in the Lawrenceville and Turtle Creek sections of the Pittsburgh metropolitan area through the guidance and counsel of the original NHS staff.

Question Four

The NHS staff provides counseling to homeowners on a one-to-one basis when needed or requested. These counseling services can include financial counseling, contractor referral, referral of "bankable homeowners" to financial institutions, on-site inspection, approval of contractor requisitions, direct lending to homeowners who do not qualify for bankable loans, and emergency financial aid.

This type of counseling service is designed to provide the expertise in financial counseling, home rehabilitation and contractor evaluation which the individual homeowner often finds difficult to obtain and which cannot readily be provided by most private financial institutions.

Question Five

When a bankable loan is involved, all processing is done by the lender. With respect to these bankable loans, NHS is simply a referral service which does not originate or package the loans. It is interesting to note that during the past year the NHS staff has been more successful in placing FHA loans.

I hope you will find this information helpful. We, of course, stand ready to respond to any additional questions you may have concerning NHS.

Sincerely,

THOMAS R. BOMAR.

The CHAIRMAN. Thank you very much.

Gentlemen, we appreciate your being with us.

Next we have the Honorable Roman S. Gribbs, mayor of the city of Detroit, Mich., representing the National League of Cities and the U.S. Conference of Mayors.

Mr. Mayor, come right around.

STATEMENT OF ROMAN S. GRIBBS, MAYOR, CITY OF DETROIT, MICH., REPRESENTING THE NATIONAL LEAGUE OF CITIES AND THE U.S. CONFERENCE OF MAYORS; ACCOMPANIED BY JOHN GUNTHER, EXECUTIVE DIRECTOR, U.S. CONFERENCE OF MAYORS; AND DAVID GARRISON, LEGISLATIVE COUNSEL TO THE LEAGUE AND CONFERENCE

Mayor GRIBBS. Thank you very much. It's nice to be here.

The CHAIRMAN. We have your prepared statement, as I announced, and it will be printed in the record in full (see p. 462).

Mayor GRIBBS. I am pleased to appear here this morning, Mr. Chairman and Senator, as president of the National League of Cities, and as a member of the executive committee of the U.S. Conference of Mayors.

I would like to introduce John Gunther, executive director of the U.S. Conference of Mayors, and Mr. David Garrison, legislative counsel to the league and the conference, who will assist me this morning.

Your subcommittee is now taking testimony on a wide range of national issues of vital significance to the cities, including not only the extremely important community development block grant proposals, but housing and planning legislation as well. I have an extensive statement on each of these three areas, which I would like to have filed for the record. On behalf of our Nation's cities, I would now like to summarize our position for the committee.

I feel it is necessary to preface my remarks with a brief observation about the irony of these hearings. Had the Congress been able to complete action on the omnibus housing legislation last year, the cities would now be well into the first year of the community development block grant program. In addition, we would be dealing with a revised set of federally assisted housing programs and a reconstituted section 701 executive planning and management program.

Instead, Mr. Chairman, cities have no new programs. Worse, still, they are faced with a crippling short-funding strategy now being implemented by this administration. Rather than innovative, new efforts to revitalize our cities, we are facing substantial cutbacks, delays, lost momentum, and increased costs. The committee can appreciate the cities' concern that the National Government not fail us again on this second go-around.

Early enactment of community development block grant legislation is a top priority for the cities. I should comment here that a compromise version of the block grant legislation somewhere between the very similar House and Senate bills of last year would have received the enthusiastic support of both the League of Cities and the Conference of Mayors.

We have noted and studied the President's revised community development proposal, this year called the Better Communities Act (S. 1743). Similarly, we are pleased that Chairman Sparkman has reintroduced last year's Senate version of community development block grants for the consideration of the committee, S. 1744. At our most recent annual meetings, the League of Cities and the Conference of Mayors separately reaffirmed their solid endorsement for block grant legislation.

Copies of these resolutions are attached (see p. 488).

Before commenting on the specifics of these two bills, let me first identify the major components which we hope will be incorporated into whatever community development block grant legislation is finally adopted.

The legislation should consolidate the following programs: Urban renewal, model cities, basic water and sewer facilities, open space land, neighborhood facilities, and rehabilitation loans.

Funds should flow directly to units of general purpose local government.

The CHAIRMAN. By the way, under chapter III of our bill last year, we did that.

Mayor GRIBBS. Yes, Mr. Chairman.

All interested communities should be required to submit a simplified application—I stress "simplified"—which sets forth locally determined needs and objectives and the locally designed action program.

Each community should be required to address the important national goals of eliminating and preventing slums and blight, and of increasing the availability of standard housing for low- and moderate-income families.

Each community should be required to involve its citizens in the development of its local program.

The Federal process of reviewing and approving block grant applications must be vastly simplified. The primary role for HUD should be to determine at the beginning of each year whether, on the face of the application, the community has complied with the process set forth by the statute.

The determination of whether a given community has accomplished its stated objectives should be made through postaudits.

The legislation should allow and encourage each participating community to use a portion of its funding to improve the local government's executive planning and management capacity.

The bill should establish a stable method of allocating block grant funds. The funding mechanism should address a community's need, its level of prior experience with consolidated programs, and its capacity to devise and carry out a comprehensive program. A fixed, minimum guarantee of funding for communities with current ongoing programs is essential.

The legislation should provide for 100-percent Federal grants and for multiple-year contracts between HUD and the cities. In addition, it is vital to the success of the program that there be an adequate procedure for the Federal guaranteeing of local temporary financing.

Finally, it is central to the success of the block grant program that there be a close linkage between the community development program and the housing program, both at the Federal and local levels. A separation of the two will translate into less comprehensive, more disjointed local efforts.

These, Mr. Chairman, are the major elements that we seek on behalf of the cities in any proposed community development block grant legislation.

As you can tell, a great many of these points were satisfactorily covered by last year's Senate bill. On the matter of consolidating the model cities program, we are pleased to note Chairman Sparkman's announcement that he now supports—as we do—its inclusion in the block grant.

On the need for a strong linkage between the community development and housing programs, we urge the committee to strengthen the language in last year's bill.

The other major difference between our list of first principles and the Senate bills concerns the local share issue. We join with the administration and the House committee in urging that the Federal grant cover all costs. No local share should be required. This issue was debated at great length last year before the committee, and the arguments remain the same. We hope the committee will reconsider its earlier decision, which would have required a 10-percent local share.

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So far as the administration's "Better Communities Act" is concerned, there are also a number of important issues on which we find agreement. However, we must disagree with several central points. These include—

The lack of a satisfactory application requirement;

The lack of a linkage to key national goals such as housing;

The failure to provide for an adequate minimum guarantee of funding for communities with ongoing programs; and

The failure to provide for any Federal loan provision.

On all of these four issues, we continue to feel that the committee's approach of last year was preferable.

Furthermore, the administration's bill raises several other issues which were not dealt with last year. A number of these suggestions, if approved, would significantly alter the character of the new program.

First, the bill proposed to assign to the States the responsibility of making the funding decisions for the smaller cities and towns of this Nation. The League of Cities and the Conference of Mayors strenuously oppose this suggestion.

The legislation should require each interested community to submit a single simplified application.

The CHAIRMAN. Mr. Mayor, there is a rollcall on, but I would like to hear what you have to say, so we will stand in recess until I get back.

Mayor GRIBBS. All right. Thank you.

[Recess.]

The CHAIRMAN. Let the committee come to order, please.

Mr. Mayor, we will be glad to have you continue.

Mayor GRIBBS. Thank you, Mr. Chairman.

As I was saying, the administration's bill raises several other issues which were not dealt with last year. A number of these suggestions, if approved, would significantly alter the character of the new program.

First, the bill proposed to assign to the States the responsibility of making the funding decisions for the smaller States and towns of this Nation. The League of Cities and the Conference of Mayors strenuously oppose this suggestion.

As this committee knows, the majority of communities participating in the urban renewal program have been below 25,000 population. Moreover, the direct Federal-local relationship in this area has existed since at least 1949. During the 24 years that have elapsed, most States have shown little if any serious interest in assisting local governments to improve their capacity to carry out community development activities.

At present and for the foreseeable future, few if any States have or will have the necessary capacity to undertake the responsibilities which the President would impose on all 50 States 11 months from now.

In our judgment, Mr. Chairman, last year's Senate bill approached the matter correctly. HUD was given the continuing responsibility to manage a large discretionary fund for smaller communities, and States would have been able to apply for discretionary funds as well as to conduct their own program activities. We urge the committee to retain this approach.

The other major structural problem raised by the administration's bill deals with county government. Our statement for the record sets

forth, in some detail, our reasons for opposing the approach recommended by the administration. Let me summarize by saying that the result of our many hours of work with this committee last year on the county issue was the decision reflected in the Senate bill—that was, that the only effective and equitable solution would be to handle all applications from counties under the ample discretionary funds provided in the bill. The impact of introducing some 90 counties into a delicately balanced, weighted allocation system is significant and, in our view, negative.

While we are continuing to study the matter in the hopes of finding a feasible way of introducing a limited number of counties, we also continue to feel that, lacking such an approach, last year's Senate bill is the best way to go.

Another major point of concern for the cities about the administration's bill is that it would eliminate the all-important minimum funding guarantee—the so-called hold harmless commitment—after a short period of 4 years, according to the present bill.

In contrast, both of last year's congressional bills clearly established the minimum funding guarantee for all communities—large and small—as a permanent feature of the program. The minimum guarrantee provision is, first of all, a crude but fairly effective method of building in a relatively smooth transition for the cities from where they are right now to where the new system will take us.

Secondly, the minimum guarantee is a recognition of the valuable investment that both the Federal and local governments have already made in the development of a capacity to carry forward effective community development programs.

Thirdly, the minimum guarantee mechanism is a knid of second-needs formula which, when taken in conjunction with the first formula, produces a much more realistic approximation of the true urban needs.

There is nothing sacrosanct about the three-factor formula proposed by the administration, and merely asserting that it is a "real-needs formula" does not make it a "real-needs formula."

As anyone who has struggled with the primitive state of the art of our national data collection system knows, we are a very long way away in this country from accurate, objective, reliable social indicators. As a result, we would contend that the rough but nonetheless important minimum guarantee formula has at least as high a correlation with need in this area, as does the proposed Census Bureau formula.

For these reasons, the minimum guarantee provisions should be maintained as a fixed feature of the program and the companion past performance measure should be retained as a fourth factor in the formula—which is to say that we continue to support the Senate bill on this issue.

One final comment on the community development legislation.

Notwithstanding the final resolution of the various issues surrounding the allocation mechanism it is clear that the number of participating communities under the block grant will be substantially larger than the number participating under the various categorical programs to be consolidated.

Therefore, in order to insure that the new approach can be satisfactorily spread across a wider constituency, it is extremely important that the size of the Federal commitment be similarly increased. The starting level proposed by the President—$2.3 billion—would provide no new money above the sum of the funding of the present programs. In our view, a considerably greater amount should be authorized and appropriated for each of the first several years of the block grant.

Now, this concludes my oral remarks on the community development block grant legislation.

There are at least two other matters of major importance which will be before this committee during its planned markup sessions this fall—namely, planning and housing. And I should like to make several comments on both issues, Mr. Chairman.

Last year's omnibus housing legislation, had it been enacted, would have included a substantial revision to the section 701 comprehensive planning program. The administration has announced that it will shortly set forth its proposals under the title of "The Responsive Governments Act." While HUD has discussed a draft of their bill with us and our staff, we will withhold detailed comments until the legislation is actually filed with Congress.

Our formal statement seeks to respond to the general description of the bill which President Nixon included in his community development message some months ago. Summarizing those comments, Mr. Chairman, and Senator, we support the general thrust proposed for the new 701 program—that is, redirecting the funding into the process of strengthening the capacity of State and local government to more effectively plan and manage their activities. This new direction will be particularly important in conjunction with the comprehensive planning and management demands of the community development block grant program.

My own city of Detroit has already made use of 701 funds in this new context. In 1970, we began the long and complicated process of reorganizing all of the city's various community development activities into a single municipal operation.

Now, using 701 funds, we are carrying out this objective and I am very pleased to say that our new unified community development commission in the city of Detroit is already having a positive effect upon the way in which we develop citywide policy in Detroit. It is this kind of capacity building that will have to take place in most all communities in order that they may maximize the potential of such new approaches as the community development block grant.

We hope that the committee's final planning legislation will both authorize and encourage this process to continue forward in other cities.

Finally, the all important matter of the Nation's housing policies and programs are before the committee. We join with the committee in looking forward with great interest to the President's proposals in this regard in early September. We also note that Chairman Sparkman has revised and reintroduced the housing sections from last year's Senate bill.

Unfortunately, the President's moratorium on the existing housing programs continues although we note with encouragement Secretary

Lynn's statement on Monday before the committee that he has requested some additional funds from OMB. There was not then, nor is there now, any persuasive justification for shutting down the existing programs until new ones have been devised and enacted.

Since only one of the several expected legislative proposals on housing are now before us, we will file our detailed comments with the committee at a later date. However, we would like at this time to set down some basic elements which we feel must be addressed by any legislative proposal in this area.

First, as we have already suggested earlier, there must be a strong linkage between the community development block grant program and Federal housing policies and programs. Without a firm connection, both major efforts will suffer greatly.

Second, housing funds should as nearly as is practicable be made available to communities on the basis of need and of capacity to utilize the funds.

Third, the locational and other broad programmatic decisions necessitated by assisted housing activity legitimately belong within the purview of general purpose local government. To shift the program design decisions for community development upon local elected officials and then to withhold similar decisions for the equally important and related housing activities would make little practical sense.

Fourth, as with the community development block grant, localities will also need the flexibility to adapt the national housing mechanisms to their own special situations.

Thus, the national program should make it possible for some communities to concentrate upon new production while others, such as my city of Detroit, put most of their efforts into conservation of housing.

Similarly, the national program should recognize that the configuration of the poor and the problems which their condition presents to the community differ from place to place. For example, Detroit's needs at the moment are for very deep subsidies with some 30 percent of our householders with very low incomes. There are other cities in other parts of the country with equally pressing but very different problems of poverty.

Fifth, any new housing legislation must also adequately resolve the increasingly demanding problems of the maintenance, modernization, and management of our existing inventory of 1 million public housing units. An agreement must be reached in this legislation regarding the availability of operating subsidies and the manner in which they are to be computed. The Nation simply cannot afford to allow this mammoth investment of public resources in our existing stock to wither away.

In the case of Detroit, our concern of maintaining the existing housing stock applies not only to public housing units but to the large number of privately produced and maintained units, many of which have or are about to become government property through foreclosures.

In a city with over one-half a million dwelling units, HUD's FHA now owns approximately 11,000 units, over half of which have either been demolished or are about to be. The balance are scheduled for repair and resale.

In addition, 7,000 units are now in the process of being foreclosed with another 15,000 waiting in the wings in the default stage. As a

result of these and other actions, the city's total housing inventory suffered a net loss of some 7,300 during the short period from 1970 to 1973. There are, in fact, some census tracts in our city where HUD owns 25 percent of the dwelling units.

Clearly, we have a very serious problem in Detroit and we are spending a great deal of time struggling to find the answers. As helpful as they are, the present array of Federal housing programs does not give us the flexibility and control we need to really begin to deal with our special problem. We hope this committee will design its new legislation so that our city and the many others like it will be able to better cope with these difficult problems.

Thank you, Mr. Chairman. I will be glad to answer your questions, as will, of course, Mr. Gunther and Mr. Garrison.

The CHAIRMAN. Thank you, Mr. Mayor.

You have given us a very fine and helpful presentation. I wanted to ask you—you made reference to the fact that HUD owns a large number of houses where the mortgages went sour in Detroit.

What type housing is that? What program?

Mayor GRIBBS. The type of housing cuts across all neighborhoods, all income levels and includes both single units and multiple units. The 235 and 236 programs essentially were used for the sale of homes that now have been defaulted, repossessed and——

The CHAIRMAN. One reason I ask you this is this: I remember when news stories came out about the situation in Detroit and I think the impression was created that they were primarily 235 housing. If I remember correctly most of it was not 235 housing. If I remember correctly most of it was not 235 housing, but was financed in another way.

I would like to ask about that if I may. I think——

Mayor GRIBBS. 221——

The CHAIRMAN. I wonder if you have the breakdown showing the number of units that HUD had to take over. I saw that breakdown—units financed under one program or the other. I ask that for this reason: When the President on January 11 made his statement relating to the freeze and the moratorium, when he virtually eliminated certain types of housing, I think he clearly implied that the big failure in Detroit was on 235 housing.

I don't understand that to be true.

Mayor GRIBBS. I misspoke myself, it's really the 221(d)(2) program.

The CHAIRMAN. All right. 221(d)(2).

Mayor GRIBBS. Yes.

The CHAIRMAN. How is that financed?

Mayor GRIBBS. Guarantees.

The CHAIRMAN. Isn't it an FHA nonsubsidized program?

Mayor GRIBBS. Yes.

The CHAIRMAN. In other words, while he was cutting off subsidized programs, it was actually the unsubsidized that was giving difficulties.

Mayor GRIBBS. That's right.

The CHAIRMAN. FHA, without subsidy, is supposed to be the soundest program of all. But, I think there's been a terrible misunderstanding. I think the section 235 subsidy program which really helps low income people, has taken the blame for failures that didn't belong to the program at all.

Is this true in Detroit?

Mayor GRIBBS. Your comments are correct, Mr. Chairman. I will give you an analysis of those units that have been repossessed and the programs under which each were operated.

The CHAIRMAN. I think it would be helpful. My understanding is that—I am told that 90 percent of that housing that went sour in Detroit was nonsubsidized housing. Ten percent was in the subsidized program.

Mayor GRIBBS. It could well be. I don't have the statistics at the moment, but we'll send them to you.

The CHAIRMAN. We had the statistics before but I don't have them now before me. We had them at the time but it seems to me it's tragic that the kind of housing that we provided to give relief to the lower income people, which has worked so well, is reported to be the culprit when actually the housing that went bad was in the program that usually is recognized as the strongest of all, the FHA nonsubsidized program.

I wish that people could understand those things.

I want to say with reference to your discussion of the 701 program, Mr. Mayor, I don't know what the reasons may be, or what arguments may be presented with reference to placing it on a State basis. 701 legislation was enacted under the jurisdiction of this committee back in 1954. It has worked well.

I think I am correct in saying that it has always been funded at the local level, and I surely agree with what I understood you to say that you think it ought to stay there.

Mayor GRIBBS. Yes, sir, and it's working well in Detroit now.

The CHAIRMAN. I think it's working well all over the country. I was in Alabama yesterday and I saw people down there interested in community development. We have groupings of counties in regional organizations. Practically the whole State is covered by one region or another.

I talked with some of the regional people yesterday and they were greatly distressed at this idea of putting 701 programs at the disposal of the—well, at the State level, instead of having it at the local and regional levels, as we have had for a long time.

Senator Johnston?

Senator JOHNSTON. Thank you very much, Mr. Chairman.

Mayor Gribbs, I am very interested in this 235 and 236 program in this area. We think it's working well in my part of the country.

I wonder how it works in Detroit? Is the single family residence with the 235, is that concept viable in a big city like Detroit?

Mayor GRIBBS. It is if properly administered.

Senator JOHNSTON. Would you say the problem in Detroit has been the administration?

Mayor GRIBBS. Yes, sir.

Senator JOHNSTON. Do you think it's a very good program?

Mayor GRIBBS. I think it's helped with the housing problem and not just in the metropolitan areas. It's the administration of it that is key.

I can give you a brief example of how important management of the program is: We have had a tremendous repossession problem, if you are familiar with this, as Philadelphia and other cities have. The

capacity to handle the repossession process just wasn't in the HUD area office in Detroit.

What happened was that we would have houses that had been defaulted upon and vacated, standing empty, for a year or 1½ years—empty—without appropriate maintenance being performed or even an attempt to resell it being made.

There is a market for those homes. For whatever reason, and I can't explain it, those who administer that HUD office who should be attempting to do something don't have a valid explanation. They don't process those homes with an eye toward maintaining them or be able to put them on the market and sell them; the houses just stand there.

When they stand there 3, 6, 9 months, they are vandalized; they are totally destroyed by vandals and they have to be torn down.

That is a vast needless waste of good housing stock. I am happy to say that the new Assistant Secretary, Mr. Crawford, came to Detroit shortly after he took office and has been there twice since.

This is about the third time that HUD has attempted to correct the situation. I again have hopes that these steps will correct it by having adequate personnel to repair the houses and to put them on the market and sell them because there is a need for them.

Senator JOHNSTON. How about the construction of them? Has oversight of FHA been satisfactory in insuring that the quality of the housing is up to—passes muster?

Mayor GRIBBS. Yes, but that is recent. We have insisted upon and the city is providing, for example, the inspectors to make sure the houses are up to city code and that there are no conveyances or attempts to unload the housing as is. That would put it in the hands of speculators and they dodge and hide and squirm. You end up with that housing stock again going steadily downhill to the point where it has to be abandoned and thus demolished.

Senator JOHNSTON. Mr. Mayor, the administration has testified before this committee that in their judgment the present subsidized housing programs are a failure and they want to revamp it and they are in the process of studying that problem now.

What advice would you give to them as to how the Government can best spend its dollar in the area of low-cost housing in the area of subsidized housing?

Mayor GRIBBS. Well, aside from the policy statements that the league presents on the record, so far as the city of Detroit is concerned, at this point the thrust should be toward the conservation of good housing. Production may be a need and a concern in other communities which have vacant land. There is some of that in Detroit, but our major concern is the conservation with various programs to preserve the existing housing stock that is essentially good in the city of Detroit.

That means loans, if you will, or grants for rehabilitation. In the metropolitan community they have the space and they would be interested in the surrounding metropolitan community in new production to a greater degree than in the city of Detroit.

I think Detroit as such with 1½ million people within the city represents the need of most of the major central cities that conservation efforts would be the best way to spend the dollar in the immediate future, although not to the exclusion of other things. Certainly as

we indicated in my statement, housing conservation should be part and parcel of the better communities act and housing program.

Senator JOHNSON. Would that be through the urban renewal fund of—urban renewal method?

Mayor GRIBBS. Yes; we have programs in that area. We used the urban renewal program essentially to put together large areas of new land where the homes are absolutely not subject to rehabilitation and make available that area for commercial projects.

Senator JOHNSTON. There are urban renewal programs for loans to existing housing?

Mayor GRIBBS. Yes.

Senator JOHNSTON. I can't quote the chapter and verse of it, but those programs are available.

Mayor GRIBBS. Yes.

Senator JOHNSTON. The city would put up matching funds with streets and that sort of thing?

Mayor GRIBBS. They are useful. They are helpful. They are essential and they should remain in the new legislation you are considering.

Senator JOHNSTON. Mayor Gribbs, we have heard now for a number of years from various sources that central cities are not worth saving and indeed it appeared that the lid was going to blow off everything in the 1960's, particularly during the urban riots of the sixties.

What direction are we going in the cities? Are things getting better or worse?

What directions are we going in the cities, and are they, in fact, worth saving?

Mayor GRIBBS. You have asked a very basic question, and I am of the firm conviction, Senator, that things are getting better. The tide is turning and we have bottomed out. I specifically speak of Detroit. I am the mayor there and I am not a candidate for office and I don't say that because of motives that might otherwise be true.

I can say that with the basis of what has happened in Detroit as a foundation for that statement. For example, we have the largest building boom in the downtown area of the city that we have had in our city's history.

At this moment we have over $1 billion worth of construction underway in one phase or another. That is solid, eastern—if you will—investment money from hardnosed businessmen that predict the city of Detroit has a great future, and they are putting their dollars into one venture or another in the city of Detroit.

We do need some breathing time while the cities rebuild and we need help in the rebuilding process. The housing, the community development aspects of it are vast and they can't be handled by private ventures. The only way to really develop the cities further and to make the change come during our lifetimes is for the continuation of effective Federal assistance.

The prospects that the cities should be written off is just unthinkable from a human point of view and it's unthinkable from our practical analysis of what's going on in the city of Detroit and other cities.

Senator JOHNSTON. By the way, I agree with you. I had hoped you would have that view. I have that feeling about our cities that things are getting better, wtih some exceptions, like the city of New Orleans. In a lot of ways, it's getting better, but with all these Federal pro-

grams having been cut off I am sure Mayor Landreau has advised you of his dire situation down there with so many of the poor and near-poor who have been drastically hurt through the cutoff of Federal programs.

I share that view that things are getting better and that the Federal Government has a real important role to play in improving that situation and in accelerating the rate of improvement, Mr. Mayor.

Yesterday, Governor Gilligan testified before this committee and he said as follows, and I ask you to comment on this:

> I urge the members of this committee to permit the Governors to sit down with you and your staff members and to describe practical workable systems to convert the will of Congress into an effective program. I propose that our committee on Rural and Urban Development be involved in such decisions as well as our counterparts from the Mayors' organizations. I believe you will find, Mr. Chairman, more agreement than you might have anticipated between the Mayors and the Governors.

Can we anticipate very much agreement between the mayors and the Governors?

Mayor GRIBBS. Yes and no.

We certainly feel that the States should be involved. We encourage their participation. We urge that they be given wide range of opportunity through community development discretionary funding, to participate to the extent that the States individually chose to.

But to go so far as to say—as I indicated in the comments that I made—that the States should replace the Federal Government, that's where we part company with the Governors. We think that the States have a responsibility to the totality of the communities and are in a position to evaluate from a broad basis what should be done and could be done to assist the local communities with technical assistance and planning.

For example, in the State of Michigan for the first time in our history some 3½ or 4 years ago the State created the Michigan State Housing Authority. It was given some $600 million in bonding capacity to spur new construction and rehabilitation of housing.

They are not yet in the community development business although its directors are talking about the fact that they are considering such activity. I think that we not only would be willing to sit down and talk with them, I think there is a very proper place for cooperative effort on the State and local basis. The Federal Government, of course, would maintain and continue its vast responsibilities in the community development field.

Senator JOHNSTON. Thank you, Mr. Mayor.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Mayor.

I'll be brief, because time is passing: You said in your statement a while ago that you have had big trouble with 235 housing. The trouble, it appears to many observers, has been the result of the administration of the program.

What would you say with reference to the 221(d)(2) program? This program accounted for 90 percent of the failures while only 10 percent were from the 235 program.

Mayor GRIBBS. No question about that. It's not the program, but it's how it was administered, Senator. We encourage the continuation of the program with appropriate, good judgment measures, to put it broadly.

You shouldn't sell the house to somebody who doesn't have the capacity to maintain it. They shouldn't make a house available if the prospects of major repairs are there and the buyer lacks adequate funding at the time the conveyance is made.

Unfortunately, so far history shows in the Detroit area that there were criminal frauds committed in appraisals and other means of conveyances that resulted in the many repossessions. There are 35 or 50 people under indictment now for various criminal actions in the community that I am familiar with.

So, it's a combination of inappropriate administration and some criminal activity that has brought about the problem as we see it. It is not the concept of the program.

The CHAIRMAN. In view of the fact that 90 percent of the housing which has gone bad in Detroit is nonsubsidized housing under FHA, and only 10 percent being in all of the various subsidized programs, don't you think that it's unfair to brand that type of housing as being no good, not accomplishing its purpose, not benefitting the people it's intended for and ultimately being eliminated?

Mayor GRIBBS. I agree with you, Senator. It's unfair and wrong.

The CHAIRMAN. Mr. Mayor, I have some questions here I wanted to ask you, but we have to move along. We have three or four more witnesses and it's 11:20 now. I will submit these to you and I would appreciate it if you would answer them in writing for the record.

Mayor GRIBBS. Thank you very much, Senator, I would be pleased to.

[Complete statement of Mayor Gribbs, the resolutions and the answers to questions of Senator Sparkman follow:]



NATIONAL LEAGUE OF CITIES



UNITED STATES CONFERENCE OF MAYORS

STATEMENT OF

THE HONORABLE ROMAN S. GRIBBS

MAYOR, CITY OF DETROIT, MICHIGAN

ON BEHALF OF

THE NATIONAL LEAGUE OF CITIES

AND

THE UNITED STATES CONFERENCE OF MAYORS

ON HOUSING AND COMMUNITY DEVELOPMENT LEGISLATION

BEFORE THE

SENATE HOUSING AND URBAN AFFAIRS SUBCOMMITTEE

Thursday, July 19, 1973

1620 Eye Street, N.W., Washington D. C. 20006 / 202-293-7330

Mr. Chairman and members of the Senate Housing and Urban Affairs Subcommittee. I am Roman S. Gribbs, Mayor of the City of Detroit, Michigan. I am pleased to appear before you this morning on behalf of the National League of Cities--of which I am currently honored to be serving as President--and of the United States Conference of Mayors on whose Executive Committee I presently serve. Your Subcommittee is now taking testimony on a wide range of national issues of vital significance to the cities, including not only the extremely important community development block grant proposals but housing and planning legislation as well. On behalf of our nation's cities, I would like to comment on each of these three areas.

I would also like to preface my remarks with a brief observation about the irony of these hearings. Had the Congress been able to complete action on the omnibus housing legislation last year, the cities would now be well into the first year of the community development block grant program. In addition, we would be dealing with a revised set of federally assisted housing programs and a reconstituted Section 701 Executive Planning and Management program. Instead, Mr. Chairman, cities have none of these new programs to work with and, worse still, they are faced with the crippling short-funding strategy now being implemented by this Administration. As a result, cities have had to make substantial cutbacks in their local programs thereby producing delays, lost momentum and increased costs. With this in mind, the Committee can appreciate the cities' concern that the national government not fail us again on this second legislative go-around.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Early enactment of community development block grant legislation continues to be a top priority for the cities. This Committee and the Senate as a whole is to be commended for successfully moving block grant legislation last session. Failure of the House to complete action on the proposal was a great disappointment and we earnestly hope that final enactment can be achieved during this Congress. I should comment here that a compromise version of the block grant legislation somewhere between the very similar House and Senate bills of last year would have had the enthusiastic support of both the League of Cities and the Conference of Mayors.

We have noted and studied the President's revised community development proposal, this year called the "Better Communities Act,"(S. 1743). Similarly, we are pleased that Chairman Sparkman has reintroduced last year's Senate version of community development block grants for the consideration of the Committee (S. 1744). At our most recent annual meetings, the League of Cities and the Conference of Mayors separately reaffirmed their solid endorsement for block grant legislation. Copies of these resolutions are attached. Before commenting on the specifics of these two bills before the Committee, let me first set forth the major components which we hope will be incorporated into whatever community development block grant legislation is finally adopted.

1. The legislation should consolidate the following programs: Urban Renewal, Model Cities, Basic Water and Sewer Facilities, Open Space Land, Neighborhood Facilities, and Rehabilitation Loans.

2. Community Development block grants should flow directly to units of general purpose local government rather than to special purpose agencies as has been the case in the past with some of these programs. This direct Federal-local relationship should continue, regardless of the size of the community.

3. The legislation should require each interested community to submit a simplified application setting forth the locally determined needs and objectives and a locally designed action program. This local program should address the community's need to increase the supply of low and moderate income housing and to prevent and eliminate slums and blight. In designing its program to respond to both national and local objectives, the community should be authorized to undertake in a broad range of physical development activities as well as certain supportive community services and facilities.

4. As part of its application, the community should be required to certify that it has involved its citizens--and particularly those residing in areas where block grant activities will be concentrated--in the planning of the local program. Of course, the final responsibility for the design of the program should rest with the local elected officials.

5. The process of Federal review and approval of these applications should be vastly simplified over present practices. The role of the Federal Department in this new system should be to determine whether the applicant community has met the stated requirements of the statute. At the end of each program year, the community, in applying for additional funds, should be required to submit an evaluation of the past year of activity to assist the Department in making a continuing determination of statutory compliance. The Federal review process should be as speedy and as simplified as possible.

6. In support of the community's broadly gauged comprehensive planning process, the legislation should also allow for the funding of the improvement of the local government's executive planning and management capacity.

7. On the matter of allocating block grant funds nationally, the legislation should create as stable a method as is practicable which takes into account each community's need, its level of prior performance under the consolidated programs, and its capacity to devise and carry out a comprehensive community development program. It is critical to the success of this legislation that it insure as nearly as can be done that each applicant community will at least be eligible for funding at a level equivalent to its past funding under the consolidated programs.

8. The community development block grant legislation should provide for 100% federal funding and for multiple year contracts. In addition, it is particularly important that the legislation provide for the Federal guarantee of local temporary financing actions which are necessary to carry out the local program. It is only with such Federal financing assistance that communities can be expected to undertake the many large scale development projects that are needed.

9. The block grant program should require a close linkage between community development activity and the adequate provision of housing for low and moderate income people living or working in the community. Reasonable progress toward providing such needed housing should be a prerequisite for the continued availability of block grant funds. In furtherance of this national goal, the legislation should establish a process by which HUD would reserve Federally assisted housing funds for local community use in conjunction with the locality's block grant program.

These are the major elements that we would seek on behalf of the cities in any proposed community development block grant legislation. As you can tell, Mr. Chairman, a great many of these points were satisfactorily covered by last year's Senate bill. On the matter of consolidating the Model Cities program, we are pleased to note Chairman Sparkman's announcement that he now supports -- as we do -- its inclusion in the block grant. On the need for a strong linkage between the community development and housing programs, we urge the Committee to give high priority to the strengthening of the language in last year's bill. The other major difference between our list of first principles and the Senate bill concerns the local share issue. We join with the Administration and the House Committee in urging that the federal grant cover all costs and that a local share not be required. This issue was debated at great length last year before the Committee and the arguments remain the same. We hope the Committee will reconsider its earlier decision.

So far as the Administration's "Better Communities Act" is concerned, there are also a number of important issues on which we find agreement. However, there are several central points on which we find we must continue to disagree. These include the lack, in the President's bill, of a satisfactory application requirement or of a linkage to key national goals such as housing. The bill also fails to provide for an adequate minimum guarantee of funding for communities with ongoing programs or for any federal loan provision. On all of these four issues, we continue to feel that the Committee's approach of last year was preferable. We have included following this statement an analysis of the "Better Communities Act" which we would ask to be included in the record of these hearings.

The Administration's bill does raise several other issues which were not dealt with last year. A number of these suggestions, if approved, would significantly alter the character of the new program. First, the bill proposes to assign to the states the responsibility of making the funding decisions for the smaller cities and towns of this nation. The League of Cities and the Conference of Mayors strenuously oppose this suggestion. As this Committee knows, the majority of communities participating in the urban renewal program have been below 25,000 population. Moreover the direct Federal-local relationship in this area has existed at least since 1949. During the 24 years that have elapsed, most states have shown little if any serious interest in entering the system to assist local governments in improving their capacity to carry out community development activities. At present, and for the foreseeable future, few if any states have or will have the necessary capacity to undertake the responsibilities which the President would impose on all 50 states 11 months from now. In fact, the dismal experience which smaller communities have had under the states' administration of some $40 million annually in Section 701 Comprehensive Planning monies should give the Congress good reason to reject the Administration's suggestion that these same states should now be given nearly $500 million in block grant funds for distribution to local government.

In our judgment, last year's Senate bill approached the matter correctly. HUD was given the continuing responsibility to manage a large discretionary fund for smaller communities. States would have been able to apply for discretionary

funds as well to conduct their own program activities. We would urge the Committee to retain this approach. In addition, we would suggest to the Committee that some greater attention should be paid to defining what application requirements should be placed upon the states. For those states now desiring a greater role in community development activities, the place to begin would be with requiring the development of a state-wide urban policy.

The other major structural problem raised by the Administration's bill deals with county government. During the debate around last year's Senate bill, it became clear that there were a number of counties -- perhaps a dozen or two at most -- which had, for differing reasons, become the focus for community development activities in their jurisdiction. The League and the Conference attempted--as did this Committee--to devise a way of incorporating these selected counties into the allocation system. All such efforts proved to be unsuccessful, primarily because there was no available way to reach these particular counties without also bringing into the allocation system a large number of other counties which had no community development responsibilities or experience. Thus, it was decided that, with the large discretionary fund proposed in the Senate bill, it would be most efficient to handle the few active counties in this area on a discretionary basis.

Unfortunately, the House Committee and now the Administration adopted a different approach which would appear to qualify about 90 counties for formula entitlements accounting for nearly 20% of the total national funds by the third year of the program. Of these approximately 90 counties, over one-third have

had no experience at all in any of the consolidated programs and less than 10 now have ongoing urban renewal activities. Under the House bill of last year, the effect of introducing these 90 counties into the allocation system would have been to reduce drastically the amount of discretionary funds available to smaller communities within metropolitan areas. Under the Administration's bill, the effect would be to reduce the amount of funding for the 500 metropolitan cities.

The League and the Conference are continuing their search for a better method of allocating funds to those counties with legitimate needs and existing legal capacity so far as community development activities are concerned. We will, of course, provide the Committee with any suggestions we may have on specific approaches before your mark-up sessions begin this fall. In the meantime, however, we cannot support the House and Administration approach on this important matter and we urge this Committee to hold with last year's Senate bill on the issue of county allocations until a more workable mechanism can be devised.

Another major point of concern for the cities about the Administration's bill is that it would eliminate the all important minimum funding guarantee--the so-called hold harmless commitment--after a short period of four years. In contrast, both of last year's Congressional bills clearly established the minimum funding guarantee for all communities, large and small, as a permanent feature of the program. The minimum guarantee provision is, first of all, a crude but fairly effective method of building in a relatively smooth transition for the cities from where they are right now to where the new system will take us. Second, the

minimum guarantee is a recognition of the valuable investment that both the federal and local governments have already made in the development of a capacity to carry forward effective community development programs. Third, the minimum guarantee mechanism is a kind of second "needs" formula which, when taken in conjunction with the first formula, produces a much more realistic approximation of true urban needs. There is nothing sacrosanct about the three factor formula proposed by the Administration and merely asserting that it is a real needs formula does not make it one. As anyone who has struggled with the primitive state of the art of our national data collection system knows, we are a very long way away in this country from accurate, objective, reliable social indicators. As a result, we would contend that the rough but nonetheless important minimum guarantee "formula" has at least as high a correlation with need in this area as does the proposed Census Bureau formula. For these reasons, the minimum guarantee provision should be maintained as a fixed feature of the program and the companion past performance measure should be retained as a fourth factor in the formula--which is to say that we continue to support the Senate bill on this issue.

One final comment on the community development legislation. Notwithstanding the final resolution of the various issues surrounding the allocation mechanism it is clear that the number of participating communities under the block grant will be substantially larger than the number participating under the various categorical programs to be consolidated. Therefore, in order to insure that the new approach can be satisfactorily spread across a wider constituency, it is extremely

important that the size of the federal commitment be similarly increased. The starting level proposed by the President -- $2.3 billion -- would provide no new money above the sum of the funding of the present programs. In our view, a considerably greater amount should be authorized and appropriated for each of the first several years of the block grant.

PLANNING AND MANAGEMENT

As it did last year, the Administration is again recommending that Congress consider and approve substantial revision and redirection of HUD's Section 701 Comprehensive Planning Program. The suggested new thrust of the program would produce a greater emphasis upon the process of building the capacity of state and local governments to effectively plan and manage their affairs. The League and the Conference strongly support this shift away from the traditional physical or land use planning orientation of 701 into an institution building focus. While the Administration has consulted with the League and the Conference concerning some of the elements of their legislation, a final bill has yet to be submitted and we will therefore hold our comments on matters of detail.

There are, however, several basic principles about the restructuring of the Section 701 program which we would urge this Committee to consider. First, the movement away from the traditional planning exercises which more often than not produced master plans for the shelf should be applauded. The real problem which should be addressed by this program is the need to improve the ability of state and local governments to not only plan for certain actions but to implement

and evaluate those actions, all as part of a continuing process. Moreover, this planning--management--evaluation continuum must take place at the public decision-making level which means local elected officials rather than professional planners working for autonomous special purpose agencies.

Second, in so far as the states are concerned, it is important that they be required to begin to consult with local governments in the development of the annual State Overall Program Design for the distribution and use of 701 funds. Not only has the experience of local government with the state administration and use of Section 701 funds been most disappointing, few states if any have systematically consulted with local government regarding how the distribution of the state controlled 701 money should be handled. HUD officials themselves have acknowledged that the greatest problem with the current 701 program is the manner in which states have dealt with the smaller communities. Under these circumstances, therefore, a proposal to turn the entire 701 package over to the states at this time would appear to be most unwise.

Third, during the next several years, the major challenge to be presented to local government by the evolving Federal grant-in-aid system will be the community development block grant program. Because capacity building is central to both the block grant and the new thrust of 701, the relationship between the two funding channels is and must be very close. Any new legislation must recognize the importance of this convergence of interest and encourage the participants in the 701 system to give block grant activities priority. In particular, communities preparing to seek block grant funds should be able to obtain 701 monies to assist them through the necessary preliminary steps.

In the context of these concerns, we would urge this Committee to take another look at the planning legislation which it approved last year. To an alarming degree, that legislation would have perpetuated the unhappy fixation of the present program with narrow physical development concerns. We would, of course, be glad to work with the Committee in revising last year's bill to accomplish the above purposes.

HOUSING

As we attempted to establish as loudly and as persuasively as possible before this Committee last spring, the cities of this nation deplore the President's action of unilaterally terminating the entire Federally assisted housing effort in this country. We continue to urge that he immediately reinstate the existing programs until satisfactory alternatives have been worked out and are in place. This Committee has responded to this plea by attaching anti-impoundment language to H. J. Res. 512, the authorization bill for the present year. We hope this language survives in the final version which goes to the President.

At the same time, we also acknowledge that a serious, thorough analysis of our nation's current housing policy and a presentation of alternative strategies for future policy is vitally important. I feel constrained at this point to raise what may seem to the Committee to be a familiar complaint from students of the urban scene. It is now and will continue to be impossible to truly understand the problems of our core cities without referring to a broader range of issues not just federally assisted housing. The housing problems of our core cities are the

product of extremely powerful non-housing policies having to do with employment, transportation, social welfare, and tax matters, to mention but a few. The national government--the Congress and the Administration--must begin to address this wider picture before the nation can expect to make any headway against these negative forces which now seem inexorable.

Having said this, however, I do not wish to imply that we do not acknowledge the importance of resolving the future direction of our nation's assisted housing programs. Quite to the contrary, because of our firm commitment to the community development block grant approach, we are now more concerned than we have ever been about the status of the national government's own goal to provide decent home in a suitable living environment for all Americans. Because the improvement of the housing stock for low and moderate income citizens is central to the long run success of the block grant program, we are extremely anxious that the Federally asssisted housing programs be tangible, functioning, well funded entities readily available to the cities.

We are not privy to the discussions that are going on within the Administration regarding the development of new housing proposals for submission to the Congress in September. We do note that the Chairman of this Committee has restated his support for the approach adopted last year by the Senate--namely a re-working of our present housing delivery system. If the decision is finally made to proceed forward with programs similar to those now on the books, last year's Senate bill was and is a very satisfactory package. However, in whatever legislation is finally adopted in this area, we would urge the inclusion of these few principles of importance to the cities.

First, as we have already suggested earlier, there must be a strong linkage between the community development block grant program and Federal housing policies and programs. Without a firm connection, both major efforts will suffer greatly.

Second, housing funds should, as nearly as is practicable, be made available to communities on the basis of need and of capacity to utilize the funds.

Third, the locational and other broad programmatic decisions necessitated by assisted housing activity legitimately belong within the purview of general purpose local government. To shift the program design decisions for community development upon local elected officials and then to withhold similar decisions for the equally important and related housing activities would make little practical sense.

Fourth, as with the community development block grant, localities will also need the flexibility to adapt the national housing mechanisms to their own special situations. Thus, the national program should make it possible for some communities to concentrate upon new production while others, such as my city of Detroit, put most of their efforts into conversation. Similarly, the national program should recognize that the configuration of the poor and the problems which their condition presents to the community differ from place to place. For example, Detroit's needs at the moment are for very deep subsidies with some 30% of our households with very low incomes. There are other cities in other parts of the country with equally pressing but very different problems of poverty.

Fifth, any new housing legislation must also adequately resolve the increasingly demanding problems of the maintenance, modernization and management of our existing inventory of one million public housing units. An agreement must be reached in this legislation regarding the availability of operating subsidies and the manner in which they are to be computed. The nation simply cannot afford to allow this mammoth investment of public resources in our existing stock to wither away.

Finally, it seems clear that the states have a greater role to play in housing than they have assumed up to now. The current trend toward creating more state housing finance agencies is good and should be supported. Assisting in the financing of housing programs is a very appropriate function for state government. The widely held misconception, however, about the state role issue is that what is needed is that the state develop programs of its own or that it assume ones now being operated by the Federal government. To the contrary, the much more significant potential contribution of the state can and should be in the area of setting policies, in consultation with local governments, controlling the future development and viability of our urban environments. Without rational state urban policies, all of the efforts, disjointed or otherwise, of Federal, state and local governments will be seriously hampered.

NATIONAL LEAGUE OF CITIES UNITED STATES CONFERENCE OF MAYORS

WASHINGTON ANALYSIS

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"THE BETTER COMMUNITIES ACT" (COMMUNITY DEVELOPMENT BLOCK GRANTS)

After nearly two years of extensive discussions and long Committee meetings, the 92nd Congress failed, in the closing days of last year's session, to complete action on pending legislation which would have created a community development block grant program to begin in July, 1973. By the time the House Rules Committee intervened in late September 1972 to stop the progress of the bill for reasons which did not relate to the block grant program, a bill had already passed the Senate (March 2, 1972 80-1) and a quite similar measure had been reported out by the House Banking and Currency Committee. As the bill headed for the House floor and an eventual House-Senate Conference, it appeared fairly certain that the final product would have Administration endorsement. The final legislation would have had the enthusiastic support of both NLC and USCM.

With the convening of a new Congress, legislation proposing the establishment of a community development block grant must be re-submitted. On April 19, 1973, the President sent up the Administration's revised "urban community development special revenue sharing" bill, this time with a new title of "The Better Communities Act" (BCA). On May 8, 1973, Senator Sparkman (D-Ala.), Chairman of the Senate Committee on Banking, Housing and Urban Affairs, reintroduced last year's Senate-passed community development block grant bill, again entitled "The Community Development Assistance Act." By July, 1973, it is expected that Congressman Barrett (D-Pa.), Chairman of the House Housing Subcommittee, along with other Democratic members of the Subcommittee, will have reintroduced last year's House Committee-passed block grant bill.

Following is an analysis of the President's proposed version of this legislation with comparisons made at appropriate points between BCA and the House and Senate bills of last year. Because the House and Senate bills were so similar in most of their major elements, and because significant Congressional support for these versions continues, it is important to assess BCA against this already established legislative framework. As a result, readers of this report will find it useful to consult the chart comparing the major issues posed by the three bills which was provided by NLC and USCM shortly after BCA was introduced.

PROGRAMS CONSOLIDATED

As with the Congressional bills, BCA would consolidate the major community development categorical programs administered by the Department of Housing and Urban Development into a single, broad, flexible, block grant of funds for allocation to units of general purpose local government. Three of the HUD programs proposed for consolidation by BCA were also included in both Congressional bills – namely Urban Renewal (all Title I activities including conventional projects, NDP, amendatories, code enforcement, etc.), Neighborhood Facilities and Open Space Land. In addition, BCA would propose to include Basic Water and Sewer Facilities, Public Facility Loans (both also in the Senate bill), Section 312 Rehabilitation Loans (also in the House bill), and Model Cities. As a result of the passage of time and of shifts in the desires of various national constituent groups, it now appears quite likely that all seven of the programs proposed for consolidation by BCA, including Model Cities and Basic Water and Sewer Facilities, will be included in the final Congressional version.

ELIGIBLE GRANT RECIPIENTS

All three bills would define the range of eligible grant recipients to include all units of general local government and States. In addition, a combination or consortium of general local governments would be eligible as a single, unified grant recipient.

ELIGIBLE ACTIVITIES

Each of the three bills would authorize a fairly broad scope of eligible community development activities. The "laundry list" approach adopted by all three bills makes use of language which, by and large, is based on the statutes of the existing categorical programs proposed for consolidation. Thus, the intended meaning of the proposed eligible activities language may be best determined through reference back to the legislative and administrative history which has grown up around the existing statutes. The "laundry list" approach also brings with it a different problem – are activities not specifically listed therefore not eligible? Since the legislation is attempting to define a concept of community development which is broad, flexible and, to some extent, not fully defined as yet, the difficulties created by an exclusive list may be significant.

The list of eligible activities set forth in each bill essentially outlines a range of physical development mechanisms. BCA, whose list is quite short, includes the acquisition and disposition of property, clearance, rehabilitation, acquisition or construction of public facilities, code enforcement, and relocation assistance. Both the House and Senate bills, which include the minimum list proposed by BCA, go on to add a number of other subsections setting forth more specific activities. The Administration's announced intention is that all activities eligible under each of the consolidated programs would also be permissible under BCA. However, whether the general language of the BCA list is sufficiently inclusive to imply the eligibility of the more specific Congressional items is uncertain.

There are three major exceptions in one or another of the bills to these otherwise physical development related lists. First, all three of the bills would authorize the expenditure of some portion (unstated) of a community's block grant funds on broadly defined "social service" activities. Under BCA, it would be possible for a community to direct its entire block grant resources to this one particular activity. The House and Senate bills would limit "software" expenditures to a considerable extent by requiring that the activity be supportive of the basic physical development thrust of the program.

A second major exception to the "hardware" focus of the block grant is found in last year's House bill which would have specifically permitted the financing of a community's executive level policy planning and management activity as it related both to the carrying out of the locally designed block grant program and to the coordination of other relevant federal, state, and local programs which impacted on the local community development strategy. This provision would have vital significance for the necessary capacity building process which will have to occur in most all communities making use of these and other block grant funds.

The third exception is that both the BCA and the House bill would allow communities to use block grant funds (again, portion unstated) as matching money for other federal programs providing assistance for community development activities. BCA would permit payment of the full non-federal share for such a related program while the House bill would have limited it to 90% of the non-federal share.

TYPE OF GRANT

BCA would mandate that the federal share for the block grant program equal 100% (i.e. no local share would be required). In addition, BCA would prohibit a state from mandating local share requirements on communities seeking block grant funds. The House bill would have permitted the federal share to go as high as 100% with strong legislative history indicating that no local share should be required. The Senate bill would have provided for a 90% federal share with the 10% local share permitted to be either cash or limited non-cash grants-in-aid.

APPLICATION REQUIREMENT

BCA would not require an application as such. Instead, each community would be required to submit a statement of community development objectives and of the projected use of the upcoming year's funds. The statement would also have to address the extent to which the community's activities would relate to any State and areawide community development plans and programs. Each community would be required to publish its proposed statement for public review 60 days prior to submitting its final statement to HUD. A copy of the final statement would have to be made available to the public, to the Governor of the state and to HUD. The community would also have to certify that the above procedure had been followed and that all other provisions of BCA had been complied with.

Within 60 days after the close of each fiscal year in which BCA funds were received, the community would have to make public and send to HUD a report concerning the projects and activities supported in whole or in part with block grant funds. This report would also have to include an assessment of such projects and activities as they

related to the community's previously stated objectives.

This procedure set forth in the BCA differs sharply with the approach taken in last year's Congressional bills. Both the House and the Senate bills would have required substantive applications from all interested communities with prior review and approval by HUD before funds could be released. However, it was made clear in both the proposed statutes and the accompanying legislative histories that the breadth and depth of this federal oversight role was to be vastly simplified from present practices. Last year's bills would have required localities to develop a comprehensive community development program which, among other things, dealt specifically with the following three national objectives: increasing the supply of low and moderate income housing, eliminating and preventing slums and blight, and improving community services and facilities in support of the basic community development strategy. The House bill would have exempted smaller communities from some aspects of the full-fledged application requirements. The Senate bill would, instead, have provided for a waiver for smaller communities which were merely seeking funding for a "one-shot" activity.

Both Congressional bills would also have required a showing of consistency with areawide plans, a strong role for citizens in the development of the application and annual self-evaluations of the performance of the community in relation to its previously stated goals and objectives.

ALLOCATION AND DISTRIBUTION OF FUNDS

Metropolitan and Urban Counties

BCA would propose to first allocate 65% of the total national appropriation directly to all metropolitan cities and urban counties according to a *formula,* using the following three criteria: population, poverty (weighted twice), and housing overcrowding. The formula would measure the degree to which a metropolitan city or urban county had a high or low amount of population, poverty, and overcrowding as compared with all metropolitan cities and urban counties. A *metropolitan city* would be defined as a central city or any other city over 50,000 population within a Standard Metropolitan Statistical Area (SMSA). At the moment, there are about 500 such metropolitan cities. An *urban county* would be defined as any county with 200,000 population or more within an SMSA exclusive of the population of any metropolitan cities therein. Under this definition, there are now about 93 such urban counties.

This urban county definition under BCA is slightly broader and less strict than that proposed in last year's House bill. Under the House approach, in computing the population cut-off, not only would the population of any metropolitan cities be excluded but also the population of any smaller municipalities, which were eligible for hold harmless funding, be omitted. In addition, to qualify for a formula allocation, an urban county would have to have sufficient authorization under state law to carry out community development activities. The exact number of qualifying urban counties under the House bill was never determined precisely except that it was no more than 85. The Senate bill had no mention of formula allocation to counties. Rather, county funding under that bill would have been accomplished through the distribution of ample discretionary funds.

During the first two years under BCA, each metropolitan city and urban county would be assured of a minimum funding level – called *hold harmless* – which would be based upon a rough calculation of the community's recent use of the seven consolidated programs. The hold harmless guarantee would be computed as the average annual grant received under the NDP and Model Cities programs plus the average of all other grants, loans or advances received under conventional urban renewal and the rest of the consolidated programs. BCA designates Fiscal Years 1968-1972 as the period for averaging purposes, except that any new NDP begun in FY 73 would also be counted. The average annual grant figure for NDP and Model Cities would be computed on a spending rate basis (i.e. total amount of grants received divided by the total number of months of activity with that result then multiplied by twelve).

In defining what grant monies would be included in the urban renewal portion of hold harmless, BCA would establish two rather curious exclusions. First, it would omit any grants made to assist a community in its recovery from a natural disaster. The impact of this provision would appear to be minimal since HUD is interpreting it to apply only to separate, special appropriations for disaster relief. There was no such special appropriation for commitments during the FY 68 to 72 period used under BCA for hold harmless computations. In the case of the exception for new NDP's funded in FY 73, no new NDP's in FY 73 have been or will be funded for disaster relief purposes.

Second, BCA would exclude from the computation any grants made to assist in the initial implementation of the Uniform Relocation Assistance Act of 1970. During FY 72, about $500 million or one-third of that year's total urban renewal commitments were made as a result of the implementation of the 1970 Act. Since the Administration has argued strenuously before Congress that relocation costs should be treated just the same as any other project costs, it is hard to understand how BCA's proposal to exclude these FY 72 grants from the hold harmless computation can be persuasively maintained.

One of the major differences in approach to the concept of funding under the block grant is

contained in BCA's proposal to phase the hold harmless provision down after two years. Under BCA, a community would have access to 100% of its hold harmless amount during the first two years of the program. In the third year, the community would be allocated its formula plus two-thirds of the difference between the formula and the hold harmless amount. In the fourth year, the allocation would equal the formula plus one-third of the difference between the formula and hold harmless. In the fifth year of the block grant program, all metropolitan cities and urban counties would have to rely upon the formula mechanism for allocations. The approach adopted in last year's Congressional bills was fundamentally different with the hold harmless amount for all metropolitan cities and urban counties computed as a fixed minimum funding guarantee until the growth in the total national appropriation was sufficient to raise each community's formula share above the minimum.

BCA would also propose special treatment for computing the *Model Cities* portion of the hold harmless level. Most of the 147 Model City communities would normally enter their fifth (and presumably last) funding year either just prior to the projected start of the block grant (July 1, 1974) or during either the first or second year of the new program. Under BCA, the hold harmless amount for the first year *after* the year in which the fifth Model Cities action year was begun would not include the average annual grant for Model Cities. This proposal is new since neither Congressional bills would have consolidated Model Cities.

One additional element of the basic allocation method would be explained. All three bills would propose to gradually ease those communities into the system which had higher formula than hold harmless shares. Each bill would establish slightly different approaches with the steepest formula *phase-in* operating under BCA and the Senate bill and the most gradual established under the House bill. In the case of BCA, in year one, a metropolitan city or urban county would be allocated its hold harmless amount or one-third of its formula, whichever was larger. In year two, the choice would be between the hold harmless or two-thirds of the formula or the amount received in the first year, whichever was larger. In the third year, the community would be eligible for its full formula share. As noted above, year three would also be the first year for the phasing down of the hold harmless amount. Under the House bill, the three step phase-in of the formula would affect only the difference between 135% of the hold harmless amount and the full formula.

Unlike the Congressional bills, BCA would allocate formula and hold harmless funds directly to the eligible communities without any intermediate allocation to SMSA's. Funds for discretionary distribution to smaller communities would then be distributed out of a single account – in the case of BCA, an account to be administered by the states. Under the Congressional bills, the first allocation would have gone to the 267 SMSA's with suballocations within each SMSA to the various levels of eligible communities. This procedure would have created 267 residual discretionary accounts for funding small communities along with a specific amount of money set aside at the national level. In comparing the two funding mechanisms, it would appear that BCA's proposal for a single discretionary fund would provide HUD with a simpler and more flexible administrative arrangement.

Funding for Non-Metropolitan Cities and Non-Urban Counties

Under all three bills, a non-metropolitan city or a non-urban county would also be eligible for the above described hold harmless guarantee *if* the community had been carrying out urban renewal activities during FY 68 or any subsequent fiscal year prior to the date of enactment of the block grant. In the case of BCA, Model Cities activity would also serve to qualify a smaller community for a full scale hold harmless computation. As outlined above, by the fifth year under BCA, the hold harmless amount would no longer be available while under last year's Congressional bills, the minimum commitment would have remained in force. BCA would identify 703 small communities for hold harmless guarantees.

All three bills would also provide additional discretionary funds for the funding of block grant activity in smaller communities. Under BCA, after all formula and hold harmless allocations to metropolitan cities, urban counties and smaller communities had been completed, 10% of the remainder would be retained by HUD, with the balance (90% of the remainder) being distributed among the states. Each state's share would be determined on the basis of the amount of population, poverty (weighted twice) and housing overcrowding in the metropolitan (SMSA) areas in that state, excluding the population, poverty and overcrowding data from all metropolitan cities. Of the amount it received each year, each state would be required to allocate *at least* half to the metropolitan areas within the State (on the same basis as above, namely SMSA data excluding data from metropolitan cities) for use by communities within those areas. Those funds not allocated by the state to communities within SMSA's would be available for use by any community within the state and for use by the state for "reasonable administrative costs" associated with its responsibilities under the block grant. Although BCA would not specifically restrict the use of the state funds only in smaller communities, the basis on which the funds would first be allocated to the state and then within the state strongly suggests that this would be the desired use. By the fifth year, with the elimination of hold harmless under BCA, all municipalities below 50,000 population and all non-urban counties would be entirely dependent upon the state for community development block grant funding.

In the matter of funding activities in smaller communities, the Senate bill differed fundamentally from BCA. The Senate bill would have identified several fairly substantial discretionary funds, the primary or sole purpose of which was to fund smaller communities. In addition, the funding source throughout for these communities would have been HUD rather than the state. It is entirely possible, if not probable that the Senate will insist on this approach again.

States

Thus, under BCA, states would have the responsibility of allocating a relatively small amount of funds among various interested communities within the State, with the probable focus of its attention being on non-metropolitan cities. The states would be able to cover their administrative costs for this activity but would *not* be able to use any of the block grant funds for their own independent programs. With the exception of the administrative cost allowance, all of each state's allocation would have to pass through units of general local government.

The Congressional bills essentially reversed this procedure. States would have had no responsibility in the allocation of funds to local governments but would have been able to apply for community development financing of state programs out of ample national discretionary funds.

Re-Allocation of Hold Harmless Savings

One final element of BCA's proposed formula mechanism should be explained. During years three, four and five under BCA, "savings" would be realized as a result of the phase down of the hold harmless commitment. These savings would then be plowed back into the allocation system in the following manner: 10% to HUD, 30% by formula to metropolitan cities and urban counties, and 60% to the states (of which at least half must go to communities within SMSA's) on the basis of the population, poverty (weighted twice) and overcrowding in the SMSA's (including metropolitan city data). As a result of this re-allocation procedure, the formula amounts for the larger communities and the remainder allocations to states would gradually increase during years three through five, even if the total annual appropriation were held constant.

Overall Analysis of the BCA Formula

Under BCA, in the first year of the program, approximately 73% of the funds would be used for formula and hold harmless purposes for metropolitan cities and urban counties. Smaller communities would consume an additional 18% for their hold harmless demands. The state share for distribution to local governments would be about 8% with the reserve fund retained by HUD equaling 1%. In year two, the allocation to the larger units would increase to 75% with the smaller units getting an additional 17% for hold harmless purposes. The state share would drop to 7% and HUD would remain at 1%. The share to metropolitan cities and urban counties would hold at about 75% from the second year onward through the fifth year and beyond. In the case of the states, however, their total share for re-distribution to local governments would increase to about 21% by the fifth year with HUD retaining approximately 3.5%.

After the second year, the rough similarity breaks down between the distribution patterns of BCA and the Congressional bills so far as the direct allocation mechanism is concerned, due to the phased disappearance of the hold harmless commitment. With the elimination of the hold harmless guarantee, a substantial portion of the block grant funds would shift away from the core cities and away from other cities with ongoing community development programs and toward the many medium sized communities whose major characteristic in the context of the formula criteria is population. The introduction of 93 urban counties into the allocation pattern further magnifies this shift. The shift would also be due to the 25% weight given in the formula to the population criteria under BCA as contrasted with 20% weight under the Congressional bills. In addition, the BCA formula lacks the significant fourth criteria proposed by the House and Senate bills which measured the relative amounts of past performance under the seven categorical programs.

The elimination of the hold harmless guarantee also has great significance for the manner in which the new commodity – "urban counties" – fare under the formula. In year one, about 7% of the total block grant funds would be allocated to urban counties. By year five, the percentage take for urban counties would be up to nearly 20%. In this connection it should be noted that 36 of the 93 urban counties would have a zero hold harmless guarantee – that is, over one-third of these counties had no experience under any of the seven categorical programs being consolidated during the FY 68-72 period. In contrast, all of the largest 93 cities would have a hold harmless commitment. Totaling the five-year allocations under BCA for the top 93 cities reveals that there would be net *reduction* in block grant funds from year one to year five of about 14%. Of the 93 cities, 33 would show increases while 60 or almost two-thirds would suffer decreases. At the same time, for the 93 urban counties, there would be a net *gain* from year one to year five of about 190%. Of these counties, 90 would show increases while only 3 would fall off.

AUTHORIZATIONS

BCA would establish an open ended authorization of such funds as may be necessary for the five year period from July 1, 1974 (FY 75) through

June 30, 1979 (FY 79). In sending the bill up, the President announced that he would seek $2.3 billion in appropriations annually for the block grant during this five year period. Both the House and Senate bills from last year contained specific authorization amounts substantially above the sum of the annual program levels for the categoricals being consolidated. That sum at the beginning of FY 72 was $2.1 billion, including Model Cities. It is a reasonable expectation that the Congress will authorize amounts somewhat above the $2.3 billion target figure set by the Administration.

In designing last year's bills, the concept of a two year contract was established. This particular version of contract authority would have been subject to the prior approval of the Congress in annual Appropriation bills. However, under the proposed bills, HUD would have been able to make two year contracts with applicant communities and would, in addition, have been able to make new two year contracts with those communities at the end of each year. This important feature was not included in the Administration's BCA.

LOAN PROVISION

Both House and Senate bills would have authorized HUD to make loans and loan guarantees for certain purposes to localities using block grant funds. In this fashion, much as is the practice now under urban renewal, communities would have been able to capitalize their programs and commit up to several year's worth of block grant funds at one time, thereby maximizing their ability to undertake substantial projects with large, front-end costs. BCA, however, failed to incorporate this vital financing mechanism.

COMPLETION OF EXISTING URBAN RENEWAL PROJECTS

The Senate bill of last year would have authorized an additional $300 million outside of the full authorization for the block grant for the specific purpose of financing the completion of as yet unfinished urban renewal projects. BCA would take a different approach. HUD would be authorized to effect a financial (but not necessarily actual) close-out of all existing urban renewal projects. For any such projects closed out for which additional funds were still needed for actual completion, HUD could then condition the distribution of block grant funds upon the use of part or all of such funds by a community for closing out existing urban renewal projects, whether the locality desired it or not. It should be noted that this provision, which would authorize HUD to dictate the priority uses for a community's block grant, would seem to be somewhat out of spirit with BCA's proposal of nearly total transfer of all other decision-making responsibilities to the local level. On the positive side, this provision would also allow a community to convert (on top of its regular block grant allocation) any outstanding but unutilized urban renewal commitments into more flexible block grant uses, if the community so desired.

APPLICABILITY OF UNIFORM RELOCATION ACT

BCA would extend the coverage of the 1970 Uniform Relocation Assistance Act to persons or businesses who relocate as the direct result of block grant activities, 25% or more of which are paid for with block grant funds. The Senate bill had a similar provision except that there was no funding threshold established. It is expected that the 1970 Act will apply to the final bill and that the threshold will be established as much by the courts as by any cut-off put forward in the statute.

CONCLUSION

The National League of Cities and the United States Conference of Mayors strongly support the concept of consolidating HUD's various community development categorical programs into a single, broad, flexible block grant package. The continued support for this approach by the Administration is important and is welcomed by the cities. As has been noted at various points in the above analysis, there are a number of critical issues affecting the design of the new approach on which Congress is expected to develop the legislation contrary to the Administration's suggestions. In addition, the House and Senate Housing Subcommittees will have had a year or more to reconsider many of their original positions and, as a result, some changes over last year's bills can be expected. The final bill which Congress sends to the President will be a compromise among the three proposed bills, a compromise which will likely bear major resemblance to the House and Senate bills of last year.

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NATIONAL LEAGUE OF CITIES
Representing 14,883 Municipalities in 50 States.

Allen E. Pritchard, Jr.
Executive Vice President

Excerpt from the

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Urban Development

1.300 COMMUNITY DEVELOPMENT BLOCK GRANTS

There is an increasing need for placing greater reliance upon the decision-making capabilities of local elected officials regarding the setting of local priorities particularly in the area of federally-assisted community development activity. In addition, new legislation should recognize and enhance the interrelationship among all community development programs and the importance of viewing the concept of community development as one including not merely physical development, but related social service development and executive policy planning, management and coordination of federal, state and local programs as well.

To these ends, there should be a consolidation of the categorical grant programs now administered by the Department of Housing and Urban Development into a single, comprehensive community development block grant program. This block grant program should be designed in such a way that it would both simplify the process of applying for program funds and streamline the delivery of those funds, once they have been awarded.

In addition, this community development block grant program should have the following components:

A. The program should consolidate existing urban development categorical programs, including urban renewal, basic water and sewer facilities, open space land, neighborhood facilities and other comparable programs.

B. Block grants should be made to units of general purpose local government without regard to population size.

C. Applicant communities should be required to prepare a multi-year, community development plan along with a detailed, first year program. Provision should be made, in connection with this new legislation, to insure that HUD's application review process will be simplified considerably.

D. Each applicant-community's development program should be required to respond to several broad, clearly stated national goals, including:

- improving the quality of life for all citizens;
- elimination and prevention of slums and blight;
- adequate provision of standard housing for low and moderate income people who live or are employed in the community, without discrimination according to racial or economic status; and
- rational future growth and land use policies.

E. A procedure should be established by Congress to provide advanced funding for the block grant program, at levels substantially above those now being approved for the various urban development programs to be consolidated. In addition, HUD should be empowered to make multi-year block grant commitments in the interest of promoting more sound, long-range development planning.

F. For each community seeking block grant funds, a basic funding entitlement should be computed by HUD which takes into account the community's prior level of program activity and the community's need for increased assistance, where appropriate. To the extent possi-

ble, each applicant-community should be eligible to receive at least as much in new program funds as it had been receiving previously. In arriving at this calculation a city's overall experience should be taken into account as well as its most recent experience. At the same time, adequate provision should be made for the funding of eligible applicant-communities which have not previously been receiving funding. Congress should avoid the use of mechanistic formulas based upon current Census data, which by their nature, fail to take adequate account of past performance and present need.

G. There should be a wide range of eligible activities under the block grant program, including all those now currently permitted under the existing urban development categorical programs to be consolidated. In addition, communities should be able to use a portion of their block grant funds for social service activity and executive planning, management and coordinating activities.

H. To the extent that a local share requirement must be met, it is imperative that communities be allowed to do so, as is currently provided, by the use of local "in-kind" contributions.

I. The block grant program should require a close linkage between community development activity and the adequate provision of housing for low and moderate income people living or working in the community. Adequate progress toward providing such needed housing should be a prerequisite for the continued availability of block grant funds. In order to facilitate each community's progress in this regard, HUD should reserve federal housing funds for those communities that have set forth a responsive housing plan in connection with their community development block grant programs.

J. The planning process associated with the block grant application should be broadly gauged to include the improvement of local government's executive planning and management capacity as well as the coordination of other federal, state and local programs into a unified community development strategy.

Approval of Federal community development block grant legislation which includes these basic components is an immediate necessity. In the interim, prior to the passage of such legislation and during any required transitional period from the current programs into the block grant program, it is vital that Congress continue to expand present funding levels, and to improve the existing categorical programs so as to broaden and maximize their impact at the local level. While the block grant legislation described above would result in vast improvements in the Federal and local delivery systems for community development dollars, the overriding need now and in the future under any program is a vastly expanded flow of federal funds.

1.301 IMPLEMENTATION OF URBAN DEVELOPMENT PROGRAMS

National, state and local urban development assistance programs must have the flexibility to respond to the dynamic nature of the urban problems they were designed to help solve. Local general purpose government now combines Federal assistance programs with planning, zoning and public facilities construction to accommodate, anticipate and influence physical, social and economic change. There is a need for cities to extend their powers by acting as a developer of last resort of those private facilities required to meet community development needs when economics makes it impossible for private enterprise to respond to clearly defined community needs in a timely fashion.

Cities are encouraged to expand their local authority in order to make it possible for them to act as a developer of last resort on a citywide basis. An expansion of authority of this kind would permit more effective use of community development block grant, urban renewal and new community programs. Linking this authority with local government tools and Federal assistance programs would be especially effective in coping with the problems of abandonment which plague a number of cities

Resolution No. 29

Community Development Block Grants

WHEREAS, the United States Conference of Mayors has long urged grant simplification and consolidations such as have been proposed for the Department of Housing and Urban Development's community development categorical programs; and

WHEREAS, failure to pass community development block grant legislation during the last session of Congress was a major disappointment for the nation's cities, particularly because the Congressional bills under serious consideration were highly supportive of the policy position of the United States Conference of Mayors as adopted in June, 1972; and

WHEREAS, the Administration has submitted to Congress a revised legislative proposal--called "The Better Communities Act"--important elements of which conflict with the approach urged by the United States Conference of Mayors and passed by the Senate and reported favorably by the House Banking and Currency Committee; and

WHEREAS, the Administration has simultaneously submitted Fiscal Year 1974 budget recommendations which announce the impoundment of nearly one billion dollars in already available housing and community development funds and which propose more than a 90% reduction in program levels for the next year, all of which actions seriously threaten a crippling loss of the present local capacity to carry forward urban revitalization efforts;

NOW, THEREFORE, BE IT RESOLVED that the United States Conference of Mayors reaffirms its strong support for early enactment by Congress of a community development block grant program which includes the following important provisions:

--consolidation of urban renewal, model cities, basic water and sewer facilities, open space land, neighborhood facilities, and rehabilitation loans,

--block grants directly to units of general purpose local governments,

--authorization of a broad range of activities, including both physical development and related social services activities, consistent with certain stated national objectives,

--the requirement that each community, interested in receiving block grant funding, submit regular, simplified applications setting forth a statement by the community of the locally defined needs and objectives, and the locally determined actions to be taken, particularly in regard to the community's need for housing in a suitable living environment, for prevention and elimination of slums and blight, and for the improvement of community services and facilities, along with a statement that local citizens have been involved in the development of the application and will be involved in the carrying out of the local community development program, and that this application should be subject only to a speedy and simplified review process by the federal government,

--creation of a stable method of allocating funds to applicant communities, taking into account each community's need, its level of past performance under the consolidated programs, and its present capacity to devise and carry out a comprehensive community development program, with a guarantee that each applicant community will at least be eligible for funding at a level equivalent to its past funding under the consolidated programs,

--provision of 100% federal funding and assurance of federal guarantees of local temporary financing actions which are necessary to carry out the community's program,

--provision for a broadly gauged comprehensive planning process in connection with a community's program which is directed toward the improvement of the local government's executive planning and management capacity and toward the coordination of other federal, state and local programs as they relate to a unified community development strategy,

--provision of multiple year funding arrangements so that greater continuity and more efficient use of block grants will occur at the local level, and

--assurance that each recipient community which has an approved block grant program would be able to affect the mix and location of all federally assisted housing resources within its jurisdiction;

BE IT FURTHER RESOLVED that the United States Conference of Mayors will work closely with the Congress and the Administration in developing community development legislation which reflects the needs of our nation's cities and will, in the process, express support for those portions of the Administration's bill which are consistent with the above policy and will express its opposition to those provisions which conflict, including the lack of an adequate fixed minimum guarantee of funding for communities with ongoing programs, the lack of a direct federal-local funding channel for communities of all sizes, the lack of an application requirement which requires communities to address certain broad national objectives, and the lack of adequate provision for federal loan assistance; and

BE IT FURTHER RESOLVED that the United States Conference of Mayors calls upon the Congress to consider the manner in which the federal government responds now to the critical funding needs of community development programs, particularly through the urban renewal program which symbolizes more than anything else the concern of the federal administration for the serious problems of the nation's cities and to approve, in addition to adequate funding for the block grant program, the necessary resources to enable HUD to honor its legal and moral commitments in connection with existing urban renewal projects whose completion depends upon further funding; and

BE IT FURTHER RESOLVED that the United States Conference of Mayors urges the Congress and the President to provide funding in Fiscal Year 1974 for community development programs at not less than the same level which was approved by Congress for Fiscal Year 1973 funding and with assurances of immediate allocation to localities of these funds without impoundment or delay so that local plans and programs may continue forward aggressively until block grant funds are available, and that, in this regard, the Conference specifically urges the Congress to reject the no-funding approach suggested by the Administration's Fiscal Year 1974 budget proposals which not only damage existing local program capacity but also insure increased start-up costs for local governments when they begin to operate under the block grant.

City of Detroit

EXECUTIVE OFFICE

ROMAN S. GRIBBS
MAYOR

August 16, 1973

Senator John J. Sparkman
United States Senate
3203 New Senate Office Building
Washington, D.C. 20510

Dear Senator Sparkman:

I wish to thank you for the opportunity to appear before your Committee to present testimony on the proposed community development block grants and to discuss federal housing subsidy programs on behalf of the National League of Cities and U.S. Conference of Mayors. The Federal Housing Administration's insurance and subsidy policies are of great concern to me because of Detroit's well known mortgage default and housing abandonment problems.

In response to your question, I am providing herewith information regarding FHA repossessions by program in Detroit. Unfortunately, complete statistics are not available for the past five years. However, the following chart shows foreclosures completed during the first six months of 1973. Following the redemption period, these houses will all come into HUD ownership by the end of the year.

FHA MORTGAGE FORECLOSURES
JANUARY - JUNE, 1973

Section	No.	Percent of* Total
203	427	16
303	38	2
221	1,432	55
321	564	22
222	2	Less than 1
223	9	Less than 1
235	99	4
335	54	2
Total	2,625	

*Total may not equal 100 due to rounding.

The average monthly rate of foreclosure exceeded 400. At the same time, HUD is attempting to offset the existing inventory of foreclosed homes (8000) with a sales program. Their own stated disposition objective is 300 units per month. As you can clearly see, this level is not sufficient to meet the monthly acquisitions, let alone reduce the inventory.

In order to provide further perspective on the foregoing figures, I am including the following information on mortgage insurances and defaults in Detroit for the years 1968-1970. These statistics, compiled by the General Accounting Office, are the most current ones available.

	Section	Percent of Total Mortgages Insured	Default Rate (In Percent)
1968-69	203	45	3
	303	2	7
	221(d)(2)	38	9
	321(d)(2)	13	18
	235	7	3
	335	7	8
1970	203	22	1
	221(d)(2)	50	4
	235	6	4
	223(e)*	22	12

*Includes the following housing programs: 303, 321(d)(2), and 335.

In addition, there are currently 22 multiple-unit developments, having a total of 1,800 dwelling units, in varying stages of default. All of these projects are mortgaged under Section 236.

One inference which can be drawn from the above data is that the "high risk" mortgage program is 221(d)(2). This finding indicates to me a certain amount of mismanagement on the part of FHA in its routine insuring practices. Furthermore, I tend to believe that many families in Detroit who could have qualified for 235 subsidies were instead misguided into the 221(d)(2) program. Their poverty made unassisted homeownership an impossible burden.

A second and more serious factor is the widespread lack of sufficient income for families in Detroit to benefit from any of these subsidy programs. To begin with, 70,000 families in Detroit are statutorily eligible for public

housing on the basis of income alone. Less than 10,000 of these families are presently so housed. Median rent in the city is about $90, a figure that is $35 to $60 below the minimum rents possible with the deepest 236 or 235 subsidy on new construction. Home ownership is still more costly. Combined with high vacancy levels, Detroit residents have many options to utilizing subsidy programs, although these generally mean settling for lower quality housing.

In other words, Detroit has a large supply of relatively inexpensive housing which is steadily deteriorating due to lack of sufficient financial resources for necessary maintenance. The single most important housing program we can pursue is conservation and rehabilitation.

This situation may not be true of other communities across the country, but I believe it may apply to a number of manufacturing cities in particular. My depiction of Detroit is not intended to exclude housing development and subsidy programs from our repertoire. What I wish to emphasize is the need for Detroit--and every other community--to have the flexibility to select and develop the right kinds of housing programs to meet its own particular needs.

For this reason--the uniqueness of my own experience--I wish to reemphasize my support for the concept of a housing block grant. Such a procedure would enable Detroit to pursue primarily conservation, while a rapidly expanding community suffering a critical shortage of housing of any description could undertake primarily development. This is a most sensible and most promising approach to addressing the housing needs of an entire nation. We are, of course, quite pleased to see that you also realized the significance of this approach and included it in your proposed housing legislation.

Sincerely,

Roman S. Gribbs

Mayor, City of Detroit
President, National League of Cities

[Telegram]

Senator JOHN SPARKMAN,
Chairman, Committee on Banking, Housing, and Urban Affairs, Washington, D.C.

The Tennessee Municipal League strongly endorses your Community Development Assistance Act presented in Senate bill 1744. We particularly support the provision that the 25 percent earmarked for small cities located outside metropolitan areas will be received directly from the Federal Government. We oppose State channeling of these funds and believe it would be detrimental to local home rule to substitute 50 State bureaucracies for a Federal bureaucracy. Thus, we oppose the Administrative Better Community Act as contained in H.B. 7277 for State channeling and certain other provisions. Our membership appreciates your distinguished leadership.

Very sincerely,

Dr. JAMES POWERS,
President, Tennessee Municipal League,
Mayor, City of Waverly, Tenn.

The CHAIRMAN. Thank you very much. We appreciate the help you have given us. Next is Mr. Hugh McKinley, city manager of Eugene, Oreg., representing the International City Management Association.

STATEMENT OF HUGH McKINLEY, CITY MANAGER, EUGENE, OREG.; ON BEHALF OF THE INTERNATIONAL CITY MANAGEMENT ASSOCIATION; ACCOMPANIED BY LAURENCE RUTTER, ICMA STAFF

The CHAIRMAN. We are glad to have you, and as I stated before, your full statement will be printed in the record.

[The complete statement of Mr. McKinley may be found at p. 500.]

Mr. MCKINLEY. Thank you, Mr. Chairman.

The CHAIRMAN. I ask that you make known the name of the gentleman accompanying you.

Mr. MCKINLEY. I would like to introduce Mr. Lawrence Rutter, Staff member of the International City Management Association, Mr. Chairman.

I am appearing in behalf of the International City Management Association and specifically as chairman of its Finance Committee, which has spent some period of time reviewing community development block grant proposals and has developed a committee report which is being submitted to the committee for your perusal during design of this community development legislation.

This report has some 17 specific recommendations and I am not going to attempt to summarize and emphasize the things we feel are important. The committee was made up of some 30 chief administrative officers of cities throughout the United States as well as county administrative people and community council of government administrators. Since this is the first time that the International City Management Association has appeared before your committee I wanted to summarize or clarify what this association is.

Over half of the cities in the United States with over 5,000 population have in their employment chief administrative people of a professional nature who are responsible for the administration of these communities and also are responsible for working with the elected officials in the policy formulation funds.

We are made up primarily of these people. They are city managers, chief city administrative officers, county administrative officers, directors of regional councils, and some mayor appointed administrators. The experience of these people in city administration has been pulled together in our report and we hope you would have an opportunity to find something helpful in this report in the design of the community development legislation.

We do urge a favorable report on Senate bill 1744, the Community Development Assistance Act of 1973, and in conjunction therewith we urge a favorable report on title IV of Senate bill 3248 as it was passed in 1972 which was designed to support the planning and management functions of local governments.

I can make some comment about the block grant concept as compared with the existing categorical grant functions. We feel that the present categorical grant programs, while they have been very helpful in many instances, are administratively very difficult. They are expensive to administer. They are sporadic and frequently slow, disjointed, and inconsistent. A whole raft of other adjectives of a similar nature could be applied to them.

Frequently, also, they are unproductive. Under the existing system of categorical grants with its expensive and detailed application systems, it is almost impossible for a total community development function to be carried out by a city in any logical, coordinated way.

The varying time schedules, the vary administrative and review functions of the Department of Housing and Urban Development, the different staffs involved and the different programs are all adding to the complexity of trying to pull together a coordinated and sensible approach to total community development.

The cost to the applicant and the Federal agency supervising the application, and reviewing the application—supervising the development of the program—must be tremendous compared to what could be done with the block grant approach.

The timespan between the initial attempt to go into the program under the categorical grant program and the time actual execution begins is often so great that the people in office at the time the idea came forward have left and we have a new set of elected officials who are then responsible for the execution of the function.

The International City Management Association joins with the National League of Cities and U.S. Conference of Mayors in favoring a system of minimizing the application program process in the block

grant program. We believe, however, there should be an application, that it should be concerned primarily with whether or not the community has a community development plan and a set of goals.

Also, the application process should be concerned with whether or not the particular plan appears to be feasible from the standpoint of delivering the goods.

For the past 2 years the International City Management Association has had a committee working on the criteria for management of Federal grant legislation. The report of that committee, which contains some 12 administrative criterion and 9 legislative criterion, was developed at the request of the National League of Cities for the purpose of giving guidance to the design of legislation by this Congress in the area of Federal grants. We have made it—with your permission—a part of our report and call your attention to the fact that the illustrious Senator from Illinois, Mr. Stevenson, some months ago had most of this report entered in the Congressional Record.

We feel that post control as proposed in the community development block grant programs will provide local flexibility in the administration of the programs. It will provide the necessary flexibility for changing directions which may become necessary in midstream and will provide the Federal Government with the ability to determine whether or not its money has been well spent.

We believe general local government has proven its ability to effectively administer these programs. We think that the decisionmaking process on priorities should be a local function carried out by the people who are elected by, and who represent, the people and who are on the scene and have the ability to set local priorities.

We would hope that HUD's review of an application be limited to seeing that the application meets specific national goals, and that it is workable and that the review take not more than 2 to 3 months time. We think that implementation rapidly is a very important asset to any community development program.

We also agree with Mayor Gribbs' in his preceding remarks and Senator Sparkman in his statement when he introduced S. 1743 and S. 1744, that there must be a very strong linkage between housing and community development.

We think that the current delay or withholding of funds in the housing field is making the transition from the existing categorical grant program to a community development block grant program more difficult the longer it lasts.

In conjunction with the block grant program we feel very strongly that the 701 program or its successor should include management as well as planning assistance.

Planning which is done without management capabilities frequently lies on the shelf. Although Senator Packwood and I both come from a

paper industry area, our paper industries' economic well being does not rest on how many plans we can develop and lay on the shelf.

We would like planning to be useful and functional and the paper industry can absorb any setback that may occur. Plans must be relevant, they must be politically acceptable, and they must be timely. I think the timeliness of planning is a very important criteria.

We now see plans being accepted in our community which 10 years ago would not have received any serious consideration at all because conditions change so rapidly.

Planning must be flexible. Planning which is done in a vacuum or without the attendant ability to execute the plans is worse than an exercise in futility. It is a complete waste of money.

Flexibility is important in a management planning program—we support it. We think that title IV of Senate bill 3248 as passed in 1972 has improvements over the existing 701 program although I think on the whole the 701 planning program has been successful and helpful.

Before I leave the planning function, there is one element of the title IV of S. 3248, that we feel could use reexamination, that is the requirement of certain mandatory inclusions in each funded program: a capital improvement program, housing element, and land use program.

We believe these are necessary elements. However, many cities have already developed these types of plans and find their planning priorities are in other areas. To have to redo these kinds of things would be unfortunate.

In addition, we think that management capabilities need to be built into the funded portion of the program.

With regard to the States' involvement in community development block grants our position would be that many States are not qualified or are not geared up to administer community development programs at the local level at the present time.

States have shown very little interest in this area in the past, and they do not have the expertise for this function. We would suggest that a test for whether or not a State should be involved in this area would be whether it was willing to put its own funds into the programs at the local level.

If a State will contribute substantial moneys to a community development program then I think we would say the States certainly should have some say in what that program is.

One of the purposes of my coming today was to express a particular concern about the hold harmless provision in the Better Communities Act as suggested by the administration in 1934. We agree heartily with a hold harmless transition protection system.

However, for example, in the city of Eugene or comparing the city of Salem in Oregon, to cities of approximately equal sizes who

have carried on for the past several years approximately equivalent dollar amount community development programs, the formula which is provided for in the Better Communities Act sets forth a 5-year average calculation base period which defines the grants as having been eligible if the commitments were made during that 5-year period.

Now reference to the word "commitment" makes a great difference between the city of Salem and the city of Eugene because the city of Eugene's commitment was made some 6 months before the suggested average 5-year period.

That means it is not eligible for being considered. The net result being that while Salem and Eugene have carried on programs of expenditure and execution of approximately the same amounts of $2½ million a year each the hold-harmless program under the Better Communities Act would provide Eugene with $422,000 in the first year, and Salem with $3,179,000. Over the 5-year program Salem would receive some $11 million while Eugene would receive some $4 million.

Now I am not suggesting that a new formula be written which takes from Salem what it should have. But I think that the hold-harmless formula in BCA is very unfair to the city of Eugene and other cities which may find themselves in a similar situation. I would suggest that rather than commitment, the averaging process of determining hold harmless be based upon the expenditures in the execution period, not when the commitment was made because we know many projects where commitments were made and nothing has been done in the area of execution.

Mr. Chairman, I would like to offer the services of the International City Management Association and whatever expertise it has to this committee in the design process of this legislation. I would like to terminate my presentation at this point and be available for questions.

The CHAIRMAN. Well, thank you very much. You have given us some very helpful suggestions and certainly a number of your suggestions are welcome and we are happy to have any help you may have in the future.

Senator Johnston?

Senator JOHNSTON. Mr. McKinley, you mentioned about the length between block grants for housing and block grants for community development. Would you expand on that? Should they be linked or not?

Mr. MCKINLEY. Our position, Senator Johnston, is that housing is an inseparable element of the community development function. They should strongly be linked. But we do not feel that the administration of housing programs fits into the block grant concept of administering community development programs at the local level.

Housing is frequently involved in the private sector, funding, subsidizing, other things outside the purview of the city administration. We think the programs should be separate but dovetailed very

closely into the development of the community total function and that the planning must be integrated.

We do not have at the local level the abilities to carry out many of the kinds of housing programs which are very helpful and should be continued and expanded.

Senator JOHNSTON. Talking about State and city relationships here, is the problem really lack of expertise on the part of the States, or is it rather an insensitivity on the part of largely rural-controlled State legislatures to the problems of the cities?

Mr. MCKINLEY. I am sure the problem varies from State to State and there is a great difference between the way in which various State administrative agencies or State executive departments and legislative departments feel about their role in the community development.

However, in general I think that States have not been concerned with this area. They have not had a recognized responsibility. Whether they are rurally oriented and simply concerned with their traditional functions I could not answer.

But some States I know are highly rural oriented, some are not.

Senator JOHNSTON. There seems to be all over the country so far as I know, that if you gave block grants to the States very little of it would get spent on housing or community development types of programs.

Why that is, whether they don't put it very high on the priority list or whether they are insensitive to the problems or what—I don't know. I think it is something more than lack of expertise. I think it is a lack of willingness to commit to the urban problem.

Mr. MCKINLEY. I am sure there is a good deal of that. I think also if we would see ourselves replacing a Federal administrative organization with a State administrative organization which did not have the experience, the background, and know-how, we would be substituting one bureaucracy for another in administration of these funds—it would be difficult.

Other programs such as law enforcement assistance has been that States involvement in this has been almost a disaster in terms of the delay in decionmaking in the passthrough process.

The local governments have been left in the lurch for years and years awaiting the seeping down of those funds that were originally intended for use at the local level.

Senator JOHNSTON. Thank you very much, Mr. McKinley. You have been very helpful. Thank you.

[Complete statement of the International City Management Association follows:]

1140
Connecticut
Avenue
Northwest
Washington DC
20036

Area Code 202
293-2200

International
City
Management
Association



Statement of

HUGH McKINLEY

City Manager
Eugene, Oregon

On behalf of the

INTERNATIONAL CITY MANAGEMENT ASSOCIATION

Before the

Senate Banking, Housing and Urban Affairs Committee

Subcommittee on Housing and Urban Affairs

Thursday, July 19, 1973

Mr. Chairman and members of the Committee, my name is Hugh McKinley. I am city manager, Eugene, Oregon. The past year I have also served as chairman of the Committee on Finance of the International City Management Association. With me today is Laurence Rutter of the ICMA staff.

Our committee has made an in-depth study of the proposals for a federal community development block grant. I am greatly honored to appear before this distinguished body to highlight the results of our study. The full report of the study is submitted, with your permission, for the record. While too lengthy to present this at this hearing, the report succinctly presents the criteria which the committee believes should be considered in designing a community development block grant legislation.

Since this is the first time a representative of ICMA has been invited to appear before this Committee, I would like to provide some background. Thirty members of the local government management profession were appointed this year by ICMA to study the block grant. We came from every region and area of the country and cities and counties of all sizes and needs.

We are appointed chief local government administrators by profession. We are city managers, mayor appointed chief administrators, county administrators, and directors of regional councils. In more than one half of the nation's cities over 5,000 population, people such as us are responsible for working with elected officials in developing local policies and programs and the day-to-day operation of local government.

From our experience with local government we have developed these views on the community development legislation before this Committee.

Block Grant Urged

We strongly urge a favorable report on legislation for a community development block grant along the lines of S. 1744, the "Community Development Assistance Act of 1973," and a program to support planning and management activities along the lines of Title IV of S. 3248 as passed by the Senate last year.

A block grant is badly needed by local government. The present system is in need of major repair. The present system encourages a long, expensive, capricious, and disjointed federal administrative process. The process results in ineffective local community development programs.

For instance, because federal community development funds are now available from separate categorical programs, the coordination and scheduling of projects at the local level is impossible. For a project that involves urban renewal, open space, and water and sewer grants, a city or county will be following three different application procedures dealing with three sets of HUD officials, wading through three sets of technical and procedural requirements, shuffling three piles of paper, and following three different time schedules. In the process countless hours of staff time, of the manager's time, and the time of elected officials will be eaten up in conceiving the project, checking into the availability of funds, ascertaining initial HUD interest, developing lengthy involved proposals, and then following the proposals as they wind their endless ways through the administrative maze. Much of this valuable and costly time is wasted. At the end of the maze is often rejection of an application -- or worse, such drastic changes in the local situation that the application has to be rewritten and the process begun over again.

Post-control

It is the position of ICMA -- a position that has been adopted by the National League of Cities -- that the specific elements of the block grant should be constructed around the concept of "post-control" rather than "pre-control" of locally run grant programs. The idea of "post-control" was the result of a two-year study of the entire federal grant-in-aid system by our Management Criteria Task Force. That study was conducted at the request of the National League of Cities and was adopted in large part by that organization last November. Earlier this year the distinguished Senator from Illinois, Mr. Stevenson, saw fit to request that major sections of that report be read into the Congressional Record. I would like to also submit that report for this record, with your permission.

Pre-controlled grant programs begin with the assumption that the locality must prove beyond a doubt that it will not mismanage its grants. This is one of the major reasons, for instance, that most of the categorical community development programs have a long, involved, application process followed by frequent and repetitive reviews of local administration of approved grants.

Post-controlled grant programs acknowledge that for the most part local governments have demonstrated the ability to wisely and responsibly use grant funds. Simply stated, post-control involves leaving the bulk of administrative review and audit until completion of the first funding cycle of a project. Post-control allows for maximum speed and flexibility in funding and it places sanctions at a place in the cycle -- the middle -- where cities and counties are most sensitive to sanctions.

Application Needed

When applied to the community development block grant, post-control has a number of implications. One implication is an answer to the question: Should there be an application process? The answer is definitely yes if the process is carefully circumscribed. The answer is yes if the process causes localities to produce a reasonable, thoughtful, and comprehensive community development plan and program in a fair period of time. The answer is yes if it is accompanied by an equitable formula for fund distribution.

So, we urge that HUD's criteria for application review be limited. It should be limited to the basic national goals set forth in the legislation and to reasonable expectations for an effective community development plan and progress. We urge that HUD be encouraged to leave to local judgment the specifics of implementation of the program. We also urge that HUD's review of applications be limited to a specific length of time. Two to three months should be ample time for a final HUD decision.

There are other components of a community development block grant that our committee felt were important.

The block grant program should be conceived in light of the existence and nature of separate federally-funded housing programs. Each local community development application should be required to identify housing resources and needs and to relate both to community development projects.

Management -- Planning

A separate title for management and planning assistance is an important adjunct to a block grant. Management-planning assistance can be a basic underpinning to effective community development.

But, it can only be effective if two conditions are met. First, the program has to make certain that planning is usable -- and that it is used. This condition, we believe, was met by Title IV of S. 3248 as passed last year. That title required that funded activities be implemented.

Frankly, we too are tired of seeing expensive, impressive, attractive -- but virtually useless -- plans gather dust on the shelf. The only way to avoid this is to channel management-planning funds through the local chief executive -- that person in a position to see that plans are implemented. To avoid useless planning, it is also necessary to make certain that funded activities are timely, relevant, acceptable, and of a high priority to locally elected officials. Otherwise, elected officials and their appointed chief administrators will not commit themselves to implement the results of the management-planning.

The only realistic way to make certain that funded activities are relevant, acceptable, and of high priority is to allow flexibility in identifying funded activities. This is the second condition that should be met by a management-planning title.

The requirement of Title IV that all recipients must produce a housing, capital programming, and land use element may tend to inhibit flexibility. These three elements are indeed high priorities in many cities and counties. But not all. Some already have these elements. Others have alternative high priorities. The priorities may instead be a program evaluation capability, program budgeting, capital budgeting, data collection and processing systems, or other management-planning activities.

Title IV of S. 3248 would be a definite improvement in the current Section 701, Comprehensive Planning Assistance program, legislation if the element of flexibility were added.

State Role

Next, our committee faced up to the issue of the state role in community development and management-planning programs. We did so because some are urging a role for states in administering local block grants and in administering management-planning funds.

States definitely have a role in community development. But, at this time we feel that it would be a mistake if states assumed any major role in administering local grants. A state role now will nullify many of the benefits of a federal-local block grant program. Not enough states have sufficient interest or capability in the area of community development or management-planning to make a positive contribution to either program.

Proposals to give states a larger role would have the net result of substituting one bureaucracy for another -- of substituting state agencies for HUD. It was the position of our Management Criteria Task Force, which I mentioned before, that states should have an administrative role in local grant programs if they are concerned enough about the needs served by the program to make a significant financial contribution to the local grants they administer. We believe this principle applies to the community development block grant as well as management-planning programs.

Hold Harmless

Because of the severe problems phasing from categorical grants to a block grant concept, the proposed hold-harmless principle based upon the previous level of community development activity is strongly endorsed.

However, there are technical problems in the calculation of hold-harmless that will result in severe inequities. As an example of the inequities, take the State of Oregon, where the cities of Salem and Eugene are similar in size. The two cities have carried on roughly equivalent categorical programs the past five years. However, under the proposed formula and hold-harmless calculation of the Administration's Better Communities Act Salem will receive $3,179,000 the first year, while Eugene's share will be only $422,000. After five years of the BCA, Salem will receive in excess of $11 million, while Eugene will only receive over $4 million.

There are two reasons for these inequities. First, the Better Communities Act does not include the recent relocation amendatory grants in computing hold-harmless guarantees. It seems to us that the amendatory grants should be used, and we are pleased to note that they are included in the formula in S. 1744.

The second reason for the inequity is that under the formula in both BCA and S. 1744, the date of grant commitment is used for calculating the base rather that the date of execution of expenditures. Since Eugene's major urban renewal commitment was made six months previous to the proposed five-year calculation. We would propose that the date--and rate--of expenditure, rather than commitment, would make for a more realistic and equitable hold-harmless formula for a community development block grant.

That concludes my remarks, Mr. Chairman. If you have any questions, I would be pleased to respond to them.

THE FEDERAL BLOCK GRANT AND COMMUNITY DEVELOPMENT

Report of the

ICMA Committee on Finance

The Report in Brief

The work of the committee has been influenced by a number of factors. It is based upon the work of ICMA's Management Criteria and Revenue Sharing Task Forces, and also upon an understanding of block grants as programs with little red tape, and maximum administrative and priority-setting discretion. It recognizes the emerging dilemma of local officials who simultaneously favor federal block grants as a concept and several specific categorical grants.

Based upon these factors, the committee recommends to the federal government that it limit creation of categorical grant programs to areas that are either national priorities for which alternative private, state, or local funding is scarce or unavailable and in which the problems or needs being addressed are found only periodically or in a relatively small number of communities; or entail economic, social, or political risks that are too high for local or state government to bear.

The committee recommends creation of a community development block grant solely for the planning, acquisition or construction

of public facilities, that requires the submission of an application, that limits the application review by the U.S. Department of Housing and Urban Development in terms of time and scope of review, that goes directly to local government on the basis of a need factor, and with a funding level consistent with the fiscal goals of the nation and to the extent of community development needs.

The committee recommends that managers work with their councils to develop effective methods to ensure that all knowledgeable and interested citizens have an opportunity to make contributions to community development plans, and prior to developing plans carry out programs of goal setting and priorities' determination for all local government programs.

ICMA is encouraged to assist by working with other public interest groups representing local and state government to seek passage of a community development block grant in the Congress, and by preparing technical assistance for localities in developing block grants.

INTRODUCTION

Federal grants to local governments have been a major concern of chief municipal administrators and ICMA. The concern within ICMA has been evidenced by the work of two task forces and an unresolved dilemma.

The charge to this committee was to extend the concern of ICMA and the profession to another issue related to federal grant programs.

The issue is the desirability of block grants for community development. As will be seen, this new issue can be resolved only in the context of the work of the two task forces and some resolution of the dilemma.

The two task forces were those dealing with revenue sharing and management criteria. The latter's report was adopted by the ICMA membership at the 1972 Annual Business Meeting, and subsequently by the membership of the National League of Cities.

It prescribed legislative and administrative criteria for the design and operation of federal grant programs.

The criteria were developed over a period of two years during which the committee met, deliberated, and conferred with experts. (See Report of the Management Criteria Task Force for the specific recommendation.) The criteria were developed in order to encourage post control of grant programs.

Post control "involved review and audit after completion of the first funding cycle on a project" that is federally funded. Post control provides for maximum flexibility and is based on the assumption that local government will perform effectively and with integrity.

The Task Force on Revenue Sharing studied a grant program that is a good example of post control as defined by the Management Criteria Task Force. Although completing its work considerably earlier than the Management Criteria Task Force, the one on revenue

sharing concluded that a program of federal/local revenue sharing would help ease the fiscal dilemmas of local government in a way that provided for maximum flexibility.

Flexibility extended to setting priorities, management systems, program design, and implementation. The sole responsibility of the federal government is to see that the funds are spent according to generally accepted practices of public accounting. A program of federal/local revenue sharing was strongly recommended, and it was recommended that ICMA work toward the adoption of such a program in the Congress. Both recommendations were adopted by the ICMA membership.

What is a block grant? - The Committee on Finance was asked to examine a new kind of federal/local grant program - the block grant or special revenue sharing. The first part of its report to the membership deals with the meaning of the proposed federal program.

The phrase special revenue sharing often is used interchangeably, and sometimes inaccurately, with the phrase block grant. And, both are confused often with general revenue sharing. Perhaps the clearest and most succinct attempt to distinguish between the three terms was that published in the Federal Budget and the Cities by the National League of Cities/U.S. Conference of Mayors.

> The three (terms) can be distinguished by their relative freedom from requirements.
>
> General revenue sharing provides funds to be used at local discretion without strings, distributed according to a formula and without need for an application.
>
> Special revenue sharing may have a formula, it may require an application, and the funds must be spent within a broad subject area, such as law enforcement, but no prior federal approval is required to use it for any of a large number of activities under that heading.
>
> Block grants will require an application, may require prior federal approval, will be subject to more federal control but far less than the old-fashioned categorical programs for which a federal official must approve everything from the cost of the land to the style of the housing and the plumbing.

As can be seen, the definitions of special revenue sharing and block grants are very close. If anything, there is a difference of degree of flexibility at the local level between the two. Generally, the only real difference in the two terms is in who uses them.

Special revenue sharing generally is associated with the proposals of the Nixon Administration, while block grants are favored by the Congress.

According to how liberally the definitions are applied, there are two programs currently in operation that could be considered block grants: the Law Enforcement Assistance Administration and the Partnership for Health Program.

However, persons familiar with either of these programs at the local level seldom experience the amount of discretion and freedom from red tape associated with block grants.

The concept of special revenue sharing was given its greatest boost in the State of the Union Message delivered by President Nixon Jan. 22, 1971. In that message the President called for Congressional adoption of six block grant programs. The Congress did not respond positively to most of those programs. The only one that came close to being adopted was community development.

The Senate passed a community development bill in Spring of 1972. A similar bill died in the House Rules Committee the following fall. In all likelihood, the only special revenue sharing program, or block grant, that will be passed by the Congress in its current session will be community development.

A dilemma -- With the passage of general revenue sharing (the State and Local Fiscal Assistance Act of 1972), and with the introduction of the President's budget for fiscal year 1974, there emerged a new dilemma for local government. It was a dilemma unanticipated by ICMA's two policy task forces.

The budget placed strong emphasis on continuing the precedent set by revenue sharing, through four separate programs of grant consolidation, called special revenue sharing by the Administration and block grants by others. The emphasis was consistent with the concept of post control as developed by the Management Criteria Task Force, and closely akin to the concept of general revenue sharing.

But, at the same time the budget called for the termination of a number of grant programs, programs not slated to be combined into some program of special revenue sharing. These programs included the Public Employment Program (PEP), Solid Waste Management within the Environmental Protection Agency, summer youth programs, and the Economic Development Administration (EDA), among others.

The budget also called for the continued freeze on a number of low and moderate income housing programs. Moreover, there was a great deal of uncertainty about whether or not some community development programs should be folded into a block grant or kept as separate categorical grant programs.

Many local officials found themselves in a dilemma over the budget's proposed block grants and terminated categorical grants. If they followed the Administration's logic for adopting block grants, they appeared foreclosed from supporting a number of categorical grants which they considered important.

But, many who favored some or all of the block grants also favored continuation of the terminated categorical grants, such as Solid Waste Management, PEP, and EDA. There seems to be no way of arguing consistently for the excellence of the block grant concept and at the same time favoring continuation of specific categorical grants.

The dilemma--along with the work of the Management Criteria and Revenue Sharing Task Forces--are the context in which this committee began to take a critical look at the block grant programs, especially the community development block grant.

Recommendations

Based upon the work of the Management Criteria and Revenue Sharing Task Forces, the meaning of a block grant, and the need to resolve the dilemma of simultaneously wanting block and certain categorical grants, the following recommendations are offered.

To the federal government:

1. Categorical grants programs should be limited to areas that are: either national priorities for which alternative private, state, or local funding is scarce or unavailable and in which the problems or needs being addressed are found only periodically or in a relatively small number of communities; or those which entail economic, social, or political risks that are too high for local or state government to bear.

In seeking to resolve the dilemma posed by the desire to see greater use of block grants and at the same time to maintain or develop certain categorical grants, the committee found that there was very little existing material on the subject. Extreme advocates of block grants seem to be saying that if a program cannot be made into a block grant it should not be funded. Others who more moderately support block grants seem to want only to protect their pet categorical grants.

Perhaps the most thoughtful attempt to draw the distinction between federally-funded block and categorical programs was the statement by Richard P. Nathan, one of the architects of the New Federalism while with the Federal Bureau of the Budget and HEW and now Senior Fellow at the Brookings Institution.

In testimony before the Congress, he said that,

> ... in areas of public activity where governmental responsibilities are not well established, categorical grants are appropriate to encourage the development of these services, although on the assumption that they will, like other established programs, later be phased out as state and local governments take on these functions. Examples of programs proposed or expanded by the current Administration which illustrate this... decision rule are family planning, drug abuse prevention and control, and aid for culture and the arts.

In response to this decision rule, the ICMA Committee on Finance determined that one criterion for adopting a categorical grant was the one in which the economic, social, or political risks are too high for local or state government to bear. The risks include the consequences of the possibility of failure because the program is very experimental.

But, the committee believed that Mr. Nathan's decision rule was not enough. What about programs such as flood control or damage? What about some of the highly popular manpower programs, such as PEP? What about the "701" program?

In response to questions such as these the committee added the criterion of national priority with scarce nonfederal funding and relatively infrequent incidence.

The criteria adopted by the committee are intended as suggestions for resolution of the dilemma. They were not intended to be exhaustive or in any sense definitive. Rather, they are advanced as a guide for future thought and action.

2. Congress should create a program of block grants to units of general local government for the purposes of community development.

The present system for funding community development generally is recognized as one which encourages a long, expensive, capricious and disjointed federal administrative process. It also leads to ineffective local development programs.

A block grant that emphasizes the need for the post control of funds and a minimum of red tape should be created out of the existing array of categorical community development programs.

3. Block grant-funded programs at the local level should be limited to the planning, construction or acquisition, of community facilities and the steps necessary for construction and allied functions.

There has been a tendency in some community development block grant proposals to make almost all local programs and projects eligible for block grant funding. Such broad eligibility limits the impact of federal funding by spreading it thinly across a broad area. Such broad funding should be limited to general revenue sharing.

A block grant should be limited to the acquisition of land, construction costs, relocation payments, and other expenses incident to a development program. Social programs required as a direct consequence of community development also should be eligible.

4. Each community eligible for funding should be required to submit an application for the funds subject to HUD approval.

The application process will motivate communities to do the intensive study and discussion necessary to produce a community development program which is effective.

5. The block grant legislation should limit HUD review to a specific,limited time frame, and to ensuring that national priorities expressed in the legislation and minimal specific process requirements are met.

The legislation should expressly direct HUD to make certain that the application process is administered with a minimum of subjective evaluation and red tape.

Perhaps the most unsatisfactory aspect of current community development programs is the capricious, nonessential, time-consuming, and arbitrary nature of the application processes for the various programs. The nature of these process has caused many communities otherwise qualified to devote their limited resources to other activities. It has also slowed, disjointed, and sabotaged effective and efficient community development nationally.

A community's application should demonstrate: 1) that any specific national priorities spelled out in the legislation will be met; 2) that the civil rights of the community are addressed by the program; 3) that citizen input into the program has been encouraged and facilitated by a process determined by each individual community, and 4) that the program is consistent with existing regional plans as approved by a regional body falling within the recommendations of the ICMA Committee on the Problems of Regionalism.

Moreover, the application process should acknowledge the staff limitations of smaller cities to ensure that they are able to participate fully in a grant programs.

6. Only units of general purpose local government equipped and legally empowered to carry out major community development programs, including cities and urban counties, should be eligible for block grant funds.

Criteria for receipt of funds should make reference to the scope of functions carried on by a unit of general purpose local government, the need for community development in the primary service area of the government, and the experience of the government in the kinds of programs funded under a block grant program.

The criteria should not be limited to often arbitrary designations of locality type under state law. At the same time, the criteria should seek to avoid funding local governments which are not fully functioning municipalities, such as townships in many states. Finally, the criteria should not include wholly irrelevant limitations due to size or communities.

7. Unless states currently are carrying on major community development programs or are contributing substantially to local community development programs, they should not receive funds under a block grant.

The preponderance of expertise and experience in the field of community development is at the local level. States have demonstrated neither the ability nor the desire on the whole to undertake community development activities.

Moreover, current proposals for the substitution of state for federal administration of the programs run counter to the recommendations of ICMA's Management Criteria Task Force. The task force recommended that federal grant programs fund local government directly unless states make substantial monetary contributions to the program.

8. The formula for fund distribution should incorporate only factors which measure a community's need for community development.

Factors to be considered should include the level of poverty in a community, the overcrowding or density of housing, as well as the degree and rate deterioration of community facilities. The formula should be normalized for regional differences in the cost of living.

Areas such as Alaska should not be asked to pay additional burdens for their high cost of living; any formula grant should take that living cost into account.

9. There should be no matching requirement for grant funds.

The requirement for matching funds places even greater drains on scarce, locally-raised revenue, and also serves to cause communities to shift their priorities from human service, public safety, and other programs to community development.

10. There should be a hold harmless provision in the formula.

The period for computation of the hold harmless level should be at least five years.

11. Computation of hold harmless amounts should not be limited to calculations to the date reservations were approved for conventional community development programs. Hold harmless computation should be based on both the grant amount for those projects entering the loan and grant stage during the period, and the projects entering planning and execution during the hold harmless period.

12. Where hold harmless levels exceed formula grants, legislation should provide for phasing down from hold harmless levels over a period of several years.

Communities with high levels of community development should be allowed to complete existing programs and they should not be penalized for the high levels of interest and action in community development. However, in order for the block grant to have maximum impact on development in local communities across the country, eventually all communities should receive only their formula levels.

13. Mechanisms for citizen participation should rely upon the elected councils of local government.

Elected representatives remain the best and most democratic means of channeling the needs and views of citizens into local government programs in the same way that state legislators and members of the Congress represent their respective constituents.

It is the responsibility of the council to see that the views of the citizens are considered carefully in the preparation of a community development program. It is also the prerogative of the Congress to make certain that the funds for community development are not allocated in a vacuum.

But, it should make no requirements for local representatives that it does not make for itself. Public hearings and discussions should be encouraged as part of the legislation. When appropriate, the advice of knowledgeable and interested panels of citizens should be encouraged to be solicited. The final authority for program approval, however, should rest with the elected council or board of supervisors.

14. The level of funding should be consistent with the fiscal goals of the federal government and the extent of the problem. In no case should the level of funding preclude funding for smaller units of government that provide urban services.

A level of funding which prohibits funding to smaller units of government--regardless of their need--is neither fair nor wise. Demonstrated need--based upon the block grant formula--should be the only criterion. Smaller, independent communities should not be asked to bear the sole burden for scarce funding.

15. Local community development programs and plans should be developed in the context of areawide planning and policy development.

Community development programs should be subject to review and comment by areawide A-95 clearinghouses. Such clearinghouses should be organized in a manner consistent with the recommendations of the ICMA Committee on Regionalism.

More than any other area, community development projects frequently have an impact beyond the boundaries of municipalities. Areawide plans and review can prevent unnecessary duplication of effort as well as unwanted spillover effects in community development programs.

16. Although housing programs should be funded separately, no community development block grant should be designed without regard to the nature of federal housing programs.

Local community development plans and programs may involve housing programs as an essential element and be conditioned by the availability of funds for low and moderate income housing. A block grant should require an assessment of housing needs and the resources to deal with these needs as part of local community development programs.

17. As an adjunct to a community development block grant, funding and guidance should be made available to local governments for the planning and the management of community development programs.

Such a program should have two components: 1) transition program for maintaining and improving planning and community development staff capabilities, and 2) an on-going program to sponsor and improve local ability to create community development plans and implement development programs.

The current Comprehensive Planning Assistance Program ("701"), administered by HUD, often has had the effect of the above recommendation. This effect needs to be broadened to include all communities eligible for a block grant--before they begin receiving block grant funds. This effect needs to be less ambiguously stated than it is in the existing "701" legislation.

To the profession:

18. Managers should work with their councils to develop effective methods to see that all knowledgeable and interested citizens have an opportunity to make a contribution to, and review, any proposed community development plans.

Although no federally-mandated mechanisms are recommended, each locality must see that its programs are prepared with maximum citizen participation. Each locality must select its own specific mechanism.

19. Managers should encourage their councils at a minimum to hold public hearings on community development needs and plans.

Many communities do not require public hearings on such programs. But, professional managers should take steps to encourage their governing bodies to use this device as one means tailoring plans to community needs, and of assuring that before plans are developed all views have an opportunity to be heard.

20. Prior to development of specific plans for community development block grant funds, managers should encourage their councils to carry out programs on goal setting and priorities' determination for all local government programs.

Community development plans should be prepared in the context of total community needs and priorities to help place the plans in this context, managers should encourage and help their councils determine long and short-range goals and objectives for the city and country.

To ICMA:

21. The membership and staff of ICMA should work with the other associations representing general local government to seek Congressional passage of a community development block grant along the lines recommended by this committee.

Following the precedent set with general revenue sharing, members should work with their elected officials in persuading members of Congress of the need for a community development block grant. If asked, ICMA should testify on the kind of block grant program best suited for local government.

And, the staff should seek to provide members with information on the progress of block grant legislation as well as assist the staff of the other local government associations in seeking passage.

22. Prior to passage, ICMA should prepare technical assistance material and programs to help local government implement block grants.

Through its Management Information Service, Institute for Training in Municipal Administration, and other such programs, ICMA should prepare materials for distribution to the membership on the implementation of the block grant. The technical assistance should include written material outlining legislative, and likely administrative, requirements as well as suggested procedures for developing community development plans. Also, ICMA should work through state managers associations and municipal leagues in providing technical assistance. The material should accompany seminars and institutes of managers designed to share information and techniques.

23. In the area of federal grants and local finance, the committee recommends that it, or its successor be directed to undertake further study. Areas which need such study include: property taxation, municipal bonds, the relevance of recent developments in public policy analysis to practical municipal finance, the impact of the federal tax structure on local government and the financial and economic implications of rapid, moderate, limited, and zero rates of urban growth.

These were some of the major areas suggested by members of the committee in need of further study. Each of the areas is worthy of indepth study by an ICMA committee.

1140
Connecticut
Avenue
Northwest
Washington DC
20036

Area Code 202
293-2200

International
City
Management
Association



REPORT OF MANAGEMENT CRITERIA TASK FORCE:

How to Make Federal Grant-in-Aid Programs More Manageable
For Local Government

Members:

Phin Horton III, Chairman, City Manager, Valdosta, Georgia
Camille D. Andre, Assistant City Coordinator, Minneapolis
Herbert Bingham, Executive Secretary, Tennessee Municipal League
Osmond Bonsey, Town Manager, Falmouth, Maine
Tom Chenoweth, City Manager, Des Moines, Iowa
Thomas W. Fletcher, President, National Training and Development Services
Ronald Gatton, Assistant to the City Manager, Dayton, Ohio
Howard Hallman, President, Center for Governmental Studies, Washington, D.C.
Walter Kane, City Administrator, Lakewood, Colorado
Guy C. Larcom, Jr., City Administrator, Ann Arbor, Michigan
Clarence Maddy, Administrative Assistant. Duluth, Minnesota
James E. Malone, City Manager, Jackson, Michigan
Hugh McKinley, City Manager, Eugene, Oregon
Paul Noland, County Administrator, Los Alamos, New Mexico
William J. Pitstick, Executive Director, Central Texas Council of Govts
Gilbert Steiner, Brookings Institution, Washington, D.C.

August 1972

THE REPORT IN BRIEF

The Task Force

The ICMA Executive Board appointed in November 1970 a Task Force on Management Criteria. It was charged with the responsibility of developing guidelines that could be used to measure the impact of federal programs on local management systems and to identify problems caused by the federal grant-in-aid system. The Committee expanded its responsibility by also developing criteria for use by the Congress and Administration in drafting legislation and administrative regulations for categorical grant programs that are sound from the point of view of municipal management. This is the Task Force's recommendations to the Association on management criteria.

The Findings

The Task Force finds that most legislation and regulations are written on the premise that unless properly constrained, local government will misuse grants-in-aid. Most legislation and regulations are based upon a need for pre-control.

The Task Force recommends that legislation and regulations be based upon an alternative, more realistic, and less debilitating premise: that local government is responsible and responsive in its use of funds. The Task Force recommends using post-control as the central focus of legislation and regulations.

Flowing from the premise of post-control, the Task Force recommends a number of specific criteria for drafting federal grant-in-aid program legislation and administrative regulations.

Administrative Criteria

1. The assurance of adequate funding before either encouraging or accepting application.
2. An agreement between the granting agency and the local agency of the goals to be achieved and the time frame for their achievement.
3. Greater understanding by personnel in field offices of the problems of local government.
4. More decision-making power delegated to federal field offices.
5. Reasonable checkpoints, agreed to by federal and local agency, when performance will be evaluated and what level of performance will be expected at the checkpoint.
6. An agreed-upon series of controls to be invoked if goals are not being achieved--including funding considerations.
7. Final joint evaluation of funded projects.

8. Institute regional agency or interagency program advisory committees composed of local officials.

9. Insure uniformity in fiscal control procedures with maximum reliance on local government.

10. Allow for funding which provides for administrative and legal expenses.

11. Provide program development working capital for supporting the program.

12. Include protection against the difficulties caused by changing federal policies during the life of funded programs.

Legislative Criteria

1. Leave the designation of "chief administrative officer" to each locality.

2. Indicate the formula for grant distribution, including both the basis for recipient selection and the percentage of required local matching funds where applicable.

3. Indicate performance standards to be met.

4. Be flexible to allow for varying conditions.

5. Channel money through the states only if it is a statewide program of statewide impact and with state contributions.

6. Channel money directly to the agency or (level of) government responsible for the program.

7. Channel money so as to be coordinated by the general purpose government of primary interest.

8. Encourage coordination and systematic management at the local level.

9. Centralize intra-and inter-agency administration of applications and facilitate local development and submission of multi-purpose applications on related programs.

INTRODUCTION

The federal grant-in-aid system may be the Trojan Horse of embattled local government. Initially, some may see the system as an opportunity to meet cities' myriad of needs. After all, the present administration has proposed spending over $43 billion in cities in fiscal year 1973. City managers, mayors, and chief administrative officers, however, are increasingly coming to realize that the grant system may be an agent inhibiting effective management of the cities' problems.

Problems with the categorical grant-in-aid process are many. Perhaps the most important is simple uncoordinated proliferation of grant programs. Current estimates are that there are between 500 and over 1,000 federal categorical grant programs. The programs are spread among almost every federal department and agency. The results for city management are these: 1) The cost of obtaining information about the programs is prohibitive. Many cities cannot afford the time necessary to survey all available federal money. Thus, many cities--especially smaller cities--miss badly needed opportunities for assistance. 2) Most cities can have no idea how much, or what kind, of federal money is flowing into their city. Federal agencies often bypass general purpose local government in funding public and private functional agencies operating in areas similar to local government. Planning and management of development is severely limited as a result.

Other problems with the grant-in-aid process involve administrative requirements. Application procedures can be so time consuming as to prohibit application. Grant programs change priorities in mid-stream leaving cities unable to find financing for on-going programs. Red tape often frustrates the need to be flexible.

Within the federal government, many recognize the problems caused by the grant-in-aid process, and attempts are being made to improve the process. Perhaps the most ambitious attempt has been the development of the concept of revenue sharing, that eliminates grant categories and maximizes recipient flexibility. Also, the concept of the block grant - adopted in the health field and soon to be adopted for community development - shows promise of improving the process.

Another attempt at improvement has been the President's Federal Assistance Review (FAR) program, expressly designed to streamline the administration of categorical grants. FAR--an interagency effort--has sought to cut red tape, reduce the time necessary to process grant applications, decentralize program operation, bring about similar regional boundaries between agencies, and place greater reliance on state and local government. Through its participation in the FAR program, the "Big Six" public interest groups* have observed some important improvements, especially with regard to decentralization and regional boundaries.

* Council of State Governments
International City Management Association
National Association of Counties
National Governors' Conference
National League of Cities
U.S. Conference of Mayors

Recently, the Federal Regional Councils were strengthened, and a chairman appointed by the President. One of the first items on the Councils' agendas will be to work closely with state and local government to identify problems in the intergovernmental system. Another initiative--the Integrated Grant Administration program--may prove to also benefit local and state government. Currently, 24 IGA programs have been selected. They will involve the consolidation of grants in several agencies into one program designed for a specific purpose at the local level. IGA will be administered by the Regional Councils. Also, a number of Office of Management and Budget Circulars (A-87, A-102) have been developed with the express purpose of improving the grant-in-aid process by promoting uniform requirements for the administration of grants by all federal agencies. In sum, attempts are being made by the federal government to improve the situation.

However, a great deal is left to be done.

In spite of current federal efforts to improve the system, the benefits of federal grants in many instances are outweighed by the problems created by the programs from the point of view of the professional city administrator.

Recognizing these problems, and recognizing that they are likely to increase unabated unless steps are taken, and responding to a request from the National League of Cities, ICMA President John Stiff (city manager of Amarillo, Texas) appointed a task force to study the problem from the point of view of city management. ICMA's Management Criteria Task Force, with Phin Horton III (city manager of Asheville, North Carolina) as its chairman, set out to do three things: 1) Examine ways of evaluating the impact of federal programs on local management systems, 2) study the problems created by federal categorical grants, and 3) suggest to the Congress and the federal administrative agencies criteria for the creation and administration of categorical grant programs that are sound from the point of view of city management.

Since its appointment, the Task Force has met several times, in several places, including Hollywood, Florida, and Washington, D.C., and has held a hearing with NLC's Intergovernmental Relations Committee in New York City to receive recommendations and suggestions from interested parties. Under Chairman Phin Horton's direction, the Task Force has zeroed-in on specific legislative and administrative criteria. Out of a list originally prepared by Task Force member Hugh McKinley (city manager of Eugene, Oregon), it selected specific legislative and administrative criteria for program design.

Below are the criteria developed by the Management Criteria Task Force. First, there is a discussion of the general concept from which it was agreed the criteria should flow. Second, there is a set of criteria relating to the administration of grant-in-aid programs. Third, there is a set of criteria relating to the drafting of grant legislation.

I. PROPOSED MANAGEMENT CRITERIA

The overwhelming majority of federal legislation is written and administered on the premise that local and state government is guilty of inappropriate or improper use of federal money until proven innocent. The assumption behind the legislation and the procedures set up by the administrative agencies for application for money seems to be that an agency of local or state government must prove beyond a doubt that it will not be guilty of poor management. In other words, the emphasis is on pre-control of federal money.

The Task Force believes that pre-control is unrealistic, burdensome, and cost-ineffective. It is pre-control that produces the costly delays and red tape that in turn prevents city administrators from effectively planning their approach to municipal problems. Voluminous justifications that are tacitly and mutually regarded as part of the process, but of limited use, the long times necessary for federal agency review, all are symptoms of the pre-control concept.

It is becoming evident to the Management Criteria Task Force that 1) pre-control is a very costly concept, and 2) an unnecessary component of grants to local and state governments. For the large part, cities have demonstrated their ability to wisely spend that money allocated to them by the federal government. Those few that have not are easily identifiable and need to be singled out, so that the vast majority of municipalities do not suffer.

What is needed is a new concept for designing programs. It is the concept of post-control. Simply stated, post-control involves review and audit after the completion of the first funding cycle on a project. Once the audit and review are complete, then a decision is made on subsequent funding. Post-control allows for the maximum speed and flexibility in funding and it places sanctions at a place in the cycle where cities are most sensitive to sanctions. Post-control relies upon the cities' needs for continuation of funding and the cities' integrity in administration to bring about conformance to federal policies. Post-control allows management to effectively plan--coordinate--its use of federal funds, and it allows city management to take advantage of these funds without having to gamble and often lose local taxpayers' funds in the process.

Post-control should be emphasized in both the design and the implementation of federal categorical grant programs. To a large extent, this emphasis has guided the formulation of the specific legislative and administrative criteria that follow.

II. ADMINISTRATION OF GRANT PROGRAMS SHOULD INCLUDE:

1. The assurance of adequate funding before either encouraging or accepting application.

Cities often find themselves encouraged to undergo the expense of preparing and submitting a grant application only to find that no funds are available for their needs.

If funds are not available, federal agencies should take all feasible steps to see that applications are not prepared. LEAA, for instance, thought it had several millions of dollars of discretionary funds available for FY 1971. It, therefore, encouraged municipalities to make grant applications. Later it was discovered that the money was not available as originally anticipated. As a result, many municipalities wasted precious resources in preparing applications for money that had already been spent. Such situations should be avoided.

A number of steps should be taken to avoid such situations. Better internal management is a prerequisite. Pre-application conferences between municipal officials and federal officials should be required in all grant programs. Federal agencies should be required to reimburse municipalities for expenses incurred preparing applications encouraged by federal agencies, but for which funds are not available at time of agency encouragement. If a federal agency receives an application for programs without funds, applications should be immediately returned so that municipalities may begin planning to seek other avenues of funding.

The Task Force accepted the recommendation of Peter Korn, city administrator of Jersey City, at its meeting in New York, that some procedure be developed whereby cities can get a preliminary commitment of funds on a project prior to preparing a long and often expensive comprehensive grant proposal. The preliminary reservation would confirm that funds were being held for the city assuming an application consistent with the program guidelines was submitted. The so-called "speed letter reservation" request system proposed by Mr. Korn would allow the local government to reserve funds before detailed and time-consuming applications are prepared, staff time is expended and hours of frustration have resulted when approval is later not given for reasons which may be known prior to the commitment of effort to prepare the application.

2. An agreement between the granting agency and the local agency of the goals to be achieved and the time frame for their achievement.

Task Force members firmly believe that cities are prepared to take total responsibility for implementing federally funded programs and for accepting the consequences of this responsibility. In order to effectively carry out program responsibility, however, it is essential that program goals at the administrative level be explicitly stated along with a schedule of implementation. A joint agreement or contract with goal statements and the implementation schedule binds a city but does not define the procedure or administrative style and techniques which will be used to carry out the program. Actual implementation is the sole responsibility of the city and should not be a subject for federal review or control. So long as goals are consistent with federal objectives and agreed to by the funding agency along with some means of checking progress, the recipient

unit of government should be given broad latitude in implementation strategies and methods. This criteria admits to the need and desirability of clearer definition at the administrative level of objectives to be achieved. It further admits to the benefit a city can accrue from making formal commitments to the achievements of objectives and being willing to be evaluated against the original statement of purpose. The consequences of such a commitment are that cities will, as they should, be evaluated on performance, but the performance measures will be those worked out jointly by both the city and the funding agency.

3. Greater understanding by personnel in field offices of the problems of local government.

It is important that administrators of local grant programs recognize the peculiar and unique nature of government at the local level. Local officials work under considerably different sets of constraints than federal officials even at the area office level. Lack of sensitivity to these constraints results in unreasonable demands, missed opportunities for cooperation, and friction in the intergovernmental system.

Two policies should be adopted by federal agencies in staffing local and regional offices. First, officials should be chosen because of their prior experience in local government, or knowledge of the problems of local government. To carry out this policy, federal agencies should all make greater use of the mobility provisions of the Intergovernmental Personnel Act, allowing federal officials to take positions in local government, and vice versa.

Second, agencies should take steps to reduce personnel turnover at the area and regional office level. Speakers at the New York City hearing noted the problems of turnover of federal officials in local offices. Current federal practice removes qualified individuals from the position of field representatives after they develop rapport with local officials; the more qualified an individual becomes, the greater the probability that he will be promoted out of his position rather than rewarded in-grade or in-position. It is the Task Force's belief that this process must be changed in order to strengthen the intergovernmental process. The result of the current policy is to minimize understanding of local official's problems in the regional and area offices of federal agencies.

4. More decision-making power delegated to federal field offices.

ICMA recently prepared a study for the President's Office of Management and Budget on decentralization of federal agencies, including HUD. The study was of the perception of managers and mayors of area office performance. The results of the study were these:

> Managers and mayors generally endorsed the area office concept, but they found that there were many problems at this level. One of the major problems with the area offices is their lack of discretion in decision-making.

It is the feeling of the Management Criteria Task Force that HUD should delegate more authority to its area offices to further improve the operation of the federal system, and other agencies should establish area offices with adequate decision-making authority over federal-city grants. Field offices with full decision-making power would greatly speed up and untangle the grant programs.

5. Reasonable checkpoints, agreed to by federal and local agency, when performance would be evaluated and what level of performance would be expected at the checkpoint.

In line with the concept of post-control, it is important to keep in mind that 1) the review period is largely a function of the specific program, and, 2) that period and the level of performance should be agreed to by all parties at the outset. These steps avoid misunderstandings and tailor each grant to the reality of the administrative set-up. If six months is adequate set-up time for a modest program, evaluation should take place then. But, if the program is a massive social experiment, a more reasonable set-up time may be 18 months to two years.

Task Force members generally agreed that the Model Cities Regional Interagency Coordinating Committee (R.I.C.C.) review concept, involving quarterly reviews performed by both the federal agency and the grantee, was a concept that should be adopted by other federal programs. R.I.C.C. reviews have generally been found to be very thorough, objective, and mutually satisfactory.

This is consistent with the suggestion of OMB Assistant Director, Dwight Ink, at the New York hearing, that audits be held early in the funding cycle to eliminate major problems and misunderstandings at the end of the cycle.

6. An agreed-upon series of controls to be invoked if goals are not being achieved--including funding considerations.

Effective use of federal funds requires the existence of credible and adequate sanctions for misuse of poor use of federal funds. The Management Criteria Task Force recognizes this necessity. In many cases, it welcomes the existence of such sanctions, because they act as a spur to action.

However, the Task Force feels that, in line with its emphasis on post-control, such controls must meet certain reasonable criteria for them to be effective. First, the controls must be agreed upon between the federal and city officials at the time a grant is made to local government. Otherwise, controls will not be effective for post-control. Second, there should be a series of controls, graduated in severity. Third, they must be applied fairly with the nature of the unmet goals.

7. Final joint evaluation of funded projects.

Consistent with the objective of post-control on federal grant programs, the Task Force advocates a joint evaluation of project accomplishments measured against originally defined goals and objectives and implementation scheduled. This evaluation will include not just an audit evaluation but an actual substantive program review. The purpose of a joint evaluation of local officia and federal representatives would be to 1) build on the interaction process that presumably developed during the course of the program implementation, and 2) as in a management-by-objective system to insure a mutual understanding of concerns and problems which may have resulted from the project. This process has problems. Clearly a municipality which has implemented a program will take a strong advocate and protective position of its accomplishments. If the sanctions to be used are clear, and if it is understood throughout a project that such an evaluation will occur, the Task Force believes that the alleged problem of protective reaction on the part of municipal officials can be dealt with and a net result from joint evaluation realized.

In many cases, this process does, in fact, occur; however, there is no formal requirement that a joint evaluation be carried out and that such an evaluation be developed on the basis of either program contract commitments or letters of understanding which define both program goals and time schedules.

8. Institute regional agency or interagency program advisory committees composed of local officials.

Several participants at the New York hearing recommended the establishment of regional federal agency advisory committees made up of local officials to review program guidelines, grant applications and/or final program products.* Local participation in the granting process would not only be helpful in increasing the responsiveness of the federal government but also in providing a means of incorporating local priority concerns.

The National Institutes of Health use practitioner specialists on advisory councils to review and pass on funding applications. The proposal offered here would not be as far reaching; rather it would be to develop a review and comment procedure through which guidelines, applications and final program products could be examined from a local perspective.

9. Insure uniformity in fiscal control procedures with maximum reliance on local government.

Federal grant-in-aid program fiscal procedures create a number of problems for local government. Perhaps one of the most difficult problems is a wide variety of reporting and control procedures employed by federal programs. Some require monthly reporting. Others require quarterly reporting. Some fund on a draw-down basis. Others fund on a letter of credit basis. Auditing procedures differ between programs. Steps should be undertaken by the federal government, perhaps with the leadership of the Office of Management and Budget, to see that maximum uniformity is achieved among programs, or that greater reliance and acceptance be given to local reporting and audit procedures which meet accepted accounting principles.

* This is not intended to imply review of every grant application.

The federal government has established an important and successful precedent in using local audit procedures with the Washington Metropolitan Council of Governments. Instead of requiring individual federal audits of each program grant, the audit prepared by the Wash COG's own CPA firm for all programs is accepted for federal control and review purposes. This process not only eliminates the multiple time-consuming visits of individual federal solicitors, but recognizes the validity of non-federal professional CPA firms being accountable.

10. Allow for funding which provides for administrative and legal expenses.

With increased support for local government coming from the federal and state levels, it is imperative that monies be made available not only for marginal costs stemming from categorical programs, but also the real costs attendant to these programs including overhead, administrative and legal expenses. The Office of Management and Budget Circular No. A-87 defines the principles to be used in determining costs applicable to grants and contracts. These include acceptable "overhead" expenses which may be charged against a grant or contract. The objectives of this circular are to be lauded and are strongly supported by this Task Force, however, actual practice belies the intent of this objective.

The required documentation expected by federal auditors in justifying and determining the applicable overhead costs is a long, difficult and expensive process; one which in several instances identified in New York City may far exceed the benefits derived from the overhead monies brought into the city. An even more significant problem is that the accepted overhead cost must be drawn from the operating monies provided in a grant and not supported by additional grant monies; a grant should be approved with overhead monies in addition to the initial amount, not subsumed in the originally requested support.

Mr. Grossman, Director of the Budget for New York City, described that city's experience at the joint hearing held by the Task Force and the National League of Cities' Intergovernmental Relations Steering Committee. He noted that in New York's case, administrative and overhead costs came out of the base grant and were not additional funding and second, that the amount of money recouped by the city and the administrative cost about equal the cost of gathering the data in the first place; therefore, the objectives of Circular No. A-87 were not in practice achieved.

11. Provide program development working capital for supporting the program.

Cities have cash problems, a fact which the federal grant-in-aid process seems to ignore. When a new federally-funded program is started, the time delay in receiving payment costs cities large sums of money. The cost of staffing, developing the actual implementation program and strategy are reimbursable expenses which the cities must carry often for months. This money is taken from general funds if available, borrowed on tax anticipation notes or from utility funds, or drawn from short term investments. In the last three instances, the city actually loses money.

Programs using letter of credit procedures are a problem because commitment to draw down funds often comes after commitment to proceed has been granted; there is a delay which for many cities can be costly and a heavy drain upon cash. In other programs, payment is made on a reimbursement basis which has an even worse impact on the cash position of the city since the municipality must carry a deficit until such time as reimbursement is made. The Task Force is here concerned with the initial start-up period of a program where cash is short and investment may be heavy. It is recommended by the committee that federal government through an administrative commitment agree to pay interest on money used by a city during initial development process and develop a means by which letters of credit may be made at the same time as grant commitments are given.

12. Include protection against the difficulties caused by changing federal policies during the life of funded programs.

It is recognized that the federal government has--and should have--the authority to reorient and redesign programs within its control. To a certain extent, inflexible management is a sign of poor program management.

However, the federal government should recognize that there are costs incurred at the local level when programs are changed during the implementation period, phased out or otherwise modified after expectations exist based on statements of intent. It is costly to phase out a funded program when monies are cut off. These costs are often borne by local government. Other costs are incurred by local government when citizen participation has been a component of a program. Citizens cannot be simply told that their participation is no longer needed in a terminated or radically reoriented program. They have invested too much of their time and energy. This citizen participation has to be redirected and dealt with, often at considerable cost to local government. HUD's concentrated Code Enforcement program, and Neighborhood Development Program have both caused serious phase-out problems for local government.

The cost of redirecting and phasing out a program--after federal funds have been denied--should be borne by the federal government. Dwight Ink, Assistant Director for the Office of Management and Budget, a most sensitive observer of local government problems, told the Task Force that citizens see government as monolithic with local officials as the agents through which they make inputs. If federal monies are cut, or a program radically changed e.g., Concentrated Code Enforcement, after local officials have developed a working relationship with citizen groups, it is the local officials who lose credibility. This is a high cost, particularly now when citizen trust of government is so low!

III. LEGISLATION FOR GRANT PROGRAMS SHOULD:

1. Leave the designation of "chief administrative officer" to each locality.

There is a tendency among legislators and federal administrators alike to assume that the title "mayor" is synonymous with a locality's chief administrative officer. Legislation and administrative regulations, thus, specify "mayor" when chief administrative officer is intended. Or they specify "chief administrative officer" when it is not clear who occupies that position in a given community. In localities with the council-manager plan, the chief administrative officer is usually the city manager, while in cities with a strong mayor, that function is performed by the mayor.

Insensitivity to this critical distinction often causes very unfortunate misunderstandings in cities with the council-manager plan. The mayor is contacted, or delegated responsibility, when the city manager should have been contacted and given responsibility. The result is often strained local internal relations.

Legislation and regulations both should be sensitive to the need for specifying the local official concerned. As an illustration, the legislation involves the day-to-day administration of local government--as with most categorical grant programs--and it is relevant to the "chief administrative officer" of the locality, it should have this definition: "chief administrative officer to be designated by each locality." The same basic definition should be used in all administrative regulations where appropriate.

2. Indicate the formula for grant distribution, including both the basis for recipient selection and the assurance of required local matching funds where applicable.

Cities initiate federal grant application on the basis of their assessment of city need, eligibility and the prospects of success in receiving a commitment. From the perspective of municipal officials, the criteria for recipient selection and the basis of fund distribution is extremely loose, and is too often determined by administratively established criteria. The legislation or the congressional committee reports accompanying legislation should include distribution formula and criteria for program selection. The block grant formula principle currently being discussed for revenue sharing provides a sound design for categorical aid as well.

The current system benefits those cities which have the resources and staff to play the grantsmanship game, leaving the great bulk of cities without monies they legitimately need and more than legitimately deserve based on what we perceive as the federal grant program objectives.

3. Indicate performance standards to be met.

It is not the intention of the Task Force that legislation include a step-by-step evaluation procedure or performance measure. But it is necessary and desirable that the Congress give some indication of what is expected from legislatively supported programs as noted above. This can be done in addition through committee reports which accompany legislation and provide a basis for development of administrative regulations and procedures. The more a committee report includes, the easier it is for not only the implementing agency, but also local governments, to know what the general intent of a program is. Part of the committee report might be a set of statements through which the Congress describes how it will evaluate whether or not a program has met their intents and purposes.

4. Be flexible to allow for varying conditions.

One of the major virtues in the federal intergovernmental relations process is that different situations require different types of response in working to achieve a common objective, thus a federal grant program with generally or specifically defined purposes can be achieved through multiple strategies and devices given the different constraints and resources of the recipient communities. It is desirable to encourage this kind of innovation and flexible approach within some clearly understood limits. A major criteria proposed by the Task Force is to maintain flexibility to accommodate the unique and different requirements of local governments.

5. Channel money through the states only if it is a statewide program of statewide impact and only if state contributes financially to the program.

6. Channel money directly to the agency or (level of) government responsible for the program.

Some of the more recently designed grant-in-aid programs, such as the Law Enforcement Assistance Administration, have tended to rely on state government for the substantive administrative efforts. To a certain extent this reliance has some virtues. It eliminates the necessity of the federal regions having to deal with the grant applications of thousands of small units of local government. It is the feeling of the Task Force, however, that reliance on the states creates more problems than it solves administratively. It means that an additional level is already added to the tangled federal system. Approval, fund draw-down, and technical assistance in such programs must be orchestrated through three and sometimes four levels of government. For large cities in many states this is a needless impediment in an already tangled intergovernmental situation. Such programs assume an understanding, administrative competence, and commonality of purpose lacking in the vast majority of the states. Such programs give the states power in a situation in which they contribute no funds and little intrinsic sympathy with cities' problems.

It is suggested that the federal government rely on its regions to administer its grant-in-aid programs, especially with regard to medium and large size cities, and that the federal government use existing general purpose sub-state districts for dealing with small cities and towns. Adding additional layers of government between the federal and the local levels should be avoided.

7. Channel money so as to be coordinated by the general purpose government of jurisdiction.

Perhaps one of the major problems faced by general purpose local government today is knowing about and coordinating the expenditures of public funds--federal, state, and local--within its jurisdiction. As many studies have indicated: 1) few, if any, cities know what money is being spent within its boundaries, and 2) that as things stand, it is impossible to find out precisely how much federal money is being spent.

The problem created for management is quite straight-forward: money that does not pass through general purpose local government weakens attempts at systematic planning.

The solution is to channel all funds directly through the city's chief administrative officer for review, comment and sign-off. Attempts are being made to do this. In selected rural cities, the U.S. Department of Housing and Urban Development has developed Planned Variations on city-wide expenditures of HUD funds. One of the variations is chief executive sign-off. Other agencies are considering similar arrangements. HEW is planning similar arrangements.

It is now time for the Congress to begin drafting legislation that recognizes the importance of adopting this concept of chief executive sign-off.

8. Encourage coordination and systematic management at the local level.

A number of current administrative efforts by the Department of Housing and Urban Development are designed to encourage coordination and systematic management at the local level. Specifically, Annual Arrangements and Planned Variations are both designed to help chief administrative officers coordinate their delivery of services, financed in part from federal grants, and properly plan for long-run management. Both are based upon existing grant programs. But both reward cities for taking the time to engage in thoughtful planning and systematic management.

Annual Arrangements involve prior negotiation between HUD and cities on a group of specific potential grants. Once arrived at, the Arrangement becomes the city's blueprint for making application for the specific grants, with the knowledge that if the applications are acceptable the grant funds are available. Annual Arrangements were specifically designed by HUD to prepare cities for the Community Development Block Grant program, currently before the Congress.

The Community [illegible]lopment Block Grant is one example of the kind of legislation that [illegible] encourage systematic management and coordinated planning in city g[illegible]ent. It is the consensus of the Task Force that legislation in the [illegible]s be developed along the lines of the proposed Block Grant for Co[illegible]y Development. And it is the consensus that where possible, a[illegible]rative agencies be given clear authority to undertake programs similar t[illegible]al Arrangements and Planned Variations.

9. Centralize intra-[illegible]r-agency administration of applications to facilitate locali[illegible]ment and submission of multi-purpose applications on related proj[illegible]

One of the mo[illegible]quently heard complaints about the federal administration of [illegible]rical grants is that one agency, or one sub-agency, does not know what [illegible]ther agency, or sub-agency within the same department, is doing. Si[illegible] kinds of grants in different departments are not coordinated. Simil[illegible]nts within agencies are not coordinated either. The result is that [illegible]al with a specific problem with several components, it is often necessa[illegible] a city to make a series of grant applications within one agency o[illegible]ween federal departments. The result again is an inability to plan.

Integrated gra[illegible]plications that deal with a single problem should be encouraged in t[illegible]lopment of legislation. Today, attempts at integration are ver[illegible]l, and usually due to administrative--rather than congressional [illegible]tive. The Office of Management and Budget's Integrated Grant Ad[illegible]ration (IGA) program is one administrative initiative.

The Congress s[illegible] begin to design legislative packages that require single application [illegible]ures coordinated by a lead federal agency for dealing with the sa[illegible]oblem area in a local jurisdiction.

The following resolution was adopted by the International City Management Association in September 1972.

RESOLUTION

Whereas, the Executive Board of the International City Management Association appointed in 1970 a task force to study the criteria for designing federal grant-in-aid programs;

Whereas, the task force was charged with developing the criteria from the point of view of municipal management;

Whereas, the creation of the Management Criteria Task Force was done in cooperation with the National League of Cities;

Whereas, the Association adopted as its Goal IV: "To contribute to the understanding and resolution of urban issues";

Whereas, the Management Criteria Task Force was appointed to help carry out this goal;

Whereas, the report of the Management Criteria Task Force has been submitted to the Executive Board;

Whereas, the Executive Board has reviewed that report and recommends to the membership that it adopt the report as the position of the Association;

Therefore, be it resolved that:

1. The report of the Management Criteria Task Force as approved by the Executive Board be adopted as the position of the International City Management Association with regard to the criteria which should be used in designing federal grant-in-aid programs.

2. Pursuant to the report of the Management Criteria Task Force, it is the position of the Association that administrative regulations for federal grant-in-aid programs should provide for:

A. The assurance of adequate funding before either encouraging or accepting application.

B. An agreement between the granting agency and the local agency of the goals to be achieved and the time frame for their achievement.

C. Greater understanding by personnel in field offices of the problems of local government.

D. More decision-making power delegated to federal field offices.

E. Reasonable checkpoints, agreed to be federal and local agency, when performance will be evaluated and what level of performance will be expected at the checkpoints.

F. An agreed upon series of controls to be invoked if goals are not being achieved -- including funding considerations.

G. Final joint evaluation of funded projects.

H. Institute regional agency or interagency program advisory committees composed of local officials.

I. Insure uniformity in fiscal control procedures with maximum reliance on local government.

J. Allow for funding which provides for administrative and legal expenses.

K. Provide program development working capital for supporting the program.

L. Include protection against the difficulties caused by changing federal policies during the life of funded programs.

3. Pursuant to the Report of the Management Criteria Task Force, it is the further position of the Association that congressional legislation for federal grant-in-aid programs should provide for:

A. Leave the designation of "chief administrative officer" to each locality.

B. Indicate the formula for grant distribution, including both the basis for recipient selection and the percentage of required local matching funds where applicable.

C. Indicate performance standards to be met.

D. Be flexible to allow for varying conditions.

E. Channel money through the states only if it is a statewide program of statewide impact and only if the state contributes financially to the program.

F. Channel money directly to the agency or level of government responsible for the program.

G. Channel money so as to be coordinated by the general purpose government of primary interest.

H. Encourage coordination and systematic management at the local level.

I. Centralize intra- and inter-agency administration of applications and facilitate local development and submission of multi-purpose applications on related programs.

4. The Report of the Management Criteria Task Force be transmitted to the National League of Cities as the position of the Association.

5. The Report of the Management Criteria Task Force be forwarded to appropriate federal officials as recommendations from the point of view of the municipal management profession.

The CHAIRMAN. Thank you, sir.

Mr. Wilcox, secretary, Pennsylvania Department of Community Affairs.

STATEMENT OF WILLIAM H. WILCOX, SECRETARY OF COMMUNITY AFFAIRS, COMMONWEALTH OF PENNSYLVANIA; ACCOMPANIED BY MR. LORENZO, STAFF MEMBER

Mr. WILCOX. Mr. Chairman, I am William Wilcox. I have Mr. Lorenzo of our staff with me in case we get into certain matters.

I almost feel at this point, if I may say so, something of a rebuttal witness on behalf of the interests of the States.

I want to say that the generalizations that have been made with respect to State performance in community development in almost every precise way do not apply to Pennsylvania.

The State of Pennsylvania has had a long involvement, going back 20 years or more, in community development activities, particularly with respect to urban renewal, and we even meet the criteria of the previous witness that the State put money on the line as an indication of its commitment.

The Commonwealth has put about $200 million into urban renewal funding which has produced about $1 billion of Federal funds for urban renewal for the communities of Pennsylvania.

I think we have done as well or better than any State with respect to urban renewal funding.

One of the reasons is because of the heavy needs of the old Pennsylvania communities which tend to be old because of the location on the east coast. They are somewhat older than other communities in the United States.

The State of Pennsylvania has put in one-sixth of the cost of urban renewal projects over these years. One-sixth of the total cost.

I emphasize total because in terms of the non-Federal share the Commonwealth of Pennsylvania has been contributing about 90 percent of the non-Federal costs of urban renewal to Pennsylvania communities for these 20 or so years and in connection with the Agnes disaster of last year, in a single bite, the Commonwealth has committed itself to $140 million of non-Federal urban renewal money to help with this disaster cleanup.

So the State has certainly put a very substantial amount of money on the line in community development in Pennsylvania and as a result of that Pennsylvania has done quite well.

I would want to say—I wonder if I might back up before I summarize some further comments that are in the written testimony, Mr. Chairman, to say that we fully concur with your concern, and Governor Shapp fully concurs with your analysis of the situation with respect to the housing moratorium.

In fact, the Commonwealth is so deeply concerned about the moratorium that we have instituted legal action in the Federal courts along with a number of other interested agencies including the Maine Housing Administration and other groups, against Federal Government for its precipitous and we think unwarranted postelection moratorium on housing.

We agree with your view that there have been problems with some of the programs, particularly the unsubsidized 221–D–2 program, and we think it was quite unwise to eliminate or to put a moratorium on other programs which had a rather impressive record of service.

We think the Federal position is inconsistent. In most of the statements there is something about the housing production that has occurred as a result of the federally assisted programs and in the next breath the statements generally indicate that the programs have not worked well and that is the basis for the moratorium.

I don't understand how it is possible to have it both ways.

But I want to assure you of our support and agreement with your point of view on this matter and our willingness to cooperate.

We have data on file, Mr. Chairman, in Harrisburg, that would support in a quantitative way our position and your position on this matter. We could provide that to you subsequently if you think that would be helpful.

The CHAIRMAN. Thank you very much.

Mr. WILCOX. Going back to the summary of the statement I would like to say in addition to these funds which the Commonwealth of Pennsylvania has provided to local communities and of increased Pennsylvania urban renewal money, we are somewhat uneasy about the special revenue-sharing proposals because, as best we can tell—and it is hard to tell from available data—Pennsylvania will lose and tend to lose more as the hold harmless provisions phaseout.

We have provided to local governments in addition to large amounts of money a very substantial amount of technical assistance.

The Appalachian Regional Commission cited Pennsylvania as the State to be emulated by the other member States in terms of providing technical assistance to local nonprofit groups and local communities in housing development.

I want to say a word of concern about the whole approach of formula giving for Federal funds. We think it may be a way of—to some extent evading leadership and governmental responsibilities.

There is a statement which Mr. Lynn in his appearance before you earlier this week quoted from the President to the effect that what is good for Detroit may not be good for New York or Newark.

That is just a general paraphrase of the statement.

I would say that from our experience with formulas as a basis for grants that the formula which is good for Detroit might not be the formula which is appropriate for New York, or Philadelphia, or Pittsburgh, or Newark.

We have had difficulties right within Pennsylvania developing formula systems for giving out funds.

It is our position that at least in the case of the State of Pennsylvania, which has this long history of both financial and technical involvement in community development that the States should be the passthrough agency for community development funds.

We say this not because of the States rights issue or any abstract principle such as that, but because we believe that the States are in a better position to see the big picture.

We think there may even be empirical evidence to support that point of view.

There are two programs for open space, one administered by the Bureau of Outdoor Recreation, by the U.S. Department of Interior; another administered by HUD.

The one administered by the Bureau of Outdoor Recreation passes through the State and has been an enormously successful and useful program, particularly because it has encouraged the State to also provide recreation funds which, coupled with the Federal funds, has provided an enormous amount of open space and recreation land in Pennsylvania.

The open space program administered by HUD directly to local communities has virtually been inoperative.

I heard with some interest your discussion about the 701 program. My department administers the 701 program for the smaller communities. Here again it is working well going through the State.

We think there are economies of scale and technical assistance which an alert State can provide and we think Pennsylvania is such a State in providing this development assistance.

I would like to comment about the difference in the language on the annual statement which has to be provided in the two pieces of legislation. The one I guess is the Community Development Assistance Act, and the Better Communities Act.

We prefer the language in the Community Development Assistance Act because it is more precise. We would suggest even more precise language be added with respect to two matters: we think that the plans and statements submitted to the Federal Government ought to indicate the relevance of the plans to disaster-prone conditions, either flooding or earthquakes or whatever conditions might exist in a State or an area so that the community could be required and the States required to face the important issue of land use planning as it relates to flood-prone areas and earthquake-prone areas.

We also think that the communities when appropriate ought to be required to indicate housing allocation commitments in the metropolitan regions.

There have been statements about the white noose around the big cities. I think that is an unfortunate term. It is not a white noose around the big cities. It is the rich man's noose around the big cities and more and more exclusionarily developed communities in the suburbs with Federal development support for sewer and water facilities and other facilities are not only excluding the poor, but excluding middle-class people such as municipal workers, policemen, firemen and school teachers, et cetera.

We in Pennsylvania have tried to confront that issue and we think the Federal—we would invite and welcome the Federal Government in joining us to restrict the allocation of public funds raised from all taxpayers when they go to communities which erclude all but the rich and near rich.

So in summary I would say that we believe that government should have a series of social purposes, that open society and land-use planning are two such proper social purposes.

We think that S. 1744, I believe it is—that is the Community Development Assistance Act—comes closer in its statement to meeting those conditions.

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With some amendments it could meet the requirement.

Now, with respect to the issue of the States which have not had a presence and do not have an interest in having a presence in community development, we would suggest the matter be dealt with by a provision in the act which would say that States which wish to be the passthrough agencies could so designate themselves and States which did not wish to get involved in community development issues would surrender that right and permit funding to go directly to the communities.

Mr. Chairman, I think that is a rough summary of the statement I filed with you this morning.

The CHAIRMAN. Thank you very much, Mr. Wilcox.

I had really read your statement before you had begun. I didn't read all of it, but most of it. I have enjoyed your statement immensely.

Let me say just this with reference to your comment regarding planning in the Commonwealth of Pennsylvania.

Of course, I realize that some States do actively participate in a statewide program, but all States do not. In many of the States, there is almost a complete detachment of the State government from the towns and cities.

So I think it does make a difference as to what kind of relationship there is in the particular State.

Mr. WILCOX. Senator, on that point, one of our concerns would be that there is a danger at least in the language of the draft legislation as it now appears that the Pennsylvania assembly might be discouraged from funding further activity at the State level in community development.

I think most people believe that that would be a step backward.

The States should have a role. If we do have a major responsibility in the administration of these Federal funds—and we believe we should because of the reasons I have indicated, namely, our technical assistance capacity and previous record of funding—that the legislation would be continued to involve the State financially in helping local communities.

So it is very important that the legislation as finally adopted not discourage States from—which have committed themselves to involvement with community development from continuing in this area.

[The statement follows:]

TESTIMONY PREPARED FOR DELIVERY BY
WILLIAM H. WILCOX, SECRETARY
PENNSYLVANIA DEPARTMENT OF COMMUNITY AFFAIRS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS OF THE
U.S. SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE

WASHINGTON, D.C.
JULY 19, 1973

I appreciate this opportunity to address you today on the topics of housing and community development, areas which are of particular concern to us in Pennsylvania.

I believe that Pennsylvania's record and experience in these fields provide excellent examples of what the states are capable of accomplishing, and I think it would be useful to briefly discuss some of our achievements and our needs for the future.

Basically, the Pennsylvania Department of Community Affairs functions in three major areas: it provides technical assistance, it gives grants, and it serves as an advocate for various groups.

We have a strong technical assistance and grant program which is based on the placement of housing specialists in our five regional offices across Pennsylvania. These specialists are available to assist nonprofit groups and public agencies in preparing housing developments to receive Federally-insured mortgages. To back up this technical assistance, the Pennsylvania General Assembly provides us with a housing assistance fund, which makes both grants and loans to nonprofit groups and public agencies, including write-downs of construction cost, with the savings passed on to the homeowner or tenant in the form of reduced rents or mortgage payments.

To date, Pennsylvania has invested $6.8 million in housing assistance fund dollars to aid about 120 groups, and this has resulted in 8,778 units of Federally-assisted housing in various stages of construction and occupancy, with a total mortgage value of about $164,674,948.

In January of this year, the Appalachian Regional Commission released a report on housing development in the 11 states in which it is involved. In a section of the report dealing with "Suggestions for Program Improvement," the Commission said it wanted to "Encourage each state to establish and provide funding for an agency similar to the Pennsylvania Department of Community Affairs. This state agency has two assets that would, if utilized, be helpful in many of the states in the Region." The two assets were identified as technical assistance to nonprofit sponsors and loans and grants.

The Department is also engaged in other activities, many of which, I believe, are unique for a governmental agency. Some of the most significant of these activities involve our third major Departmental function--that of advocacy. Governor Shapp has publicly committed his administration to achievement of what he calls "The Open Society"--which includes, among other things, the right of people to live where they want to live without racial or economic discrimination being practiced against them.

Accordingly, the Department of Community Affairs has become an advocate for the low- and moderate-income citizens of our State who have been denied access to the suburbs by communities which have resorted to the use of exclusionary zoning practices to keep them out.

As part of this advocacy, Pennsylvania is joining with other groups in legal action against the present housing assistance moratorium of the U.S. Department of Housing and Urban Development.

We have also taken the position that communities which indulge in exclusionary zoning practices--such as minimum lot sizes which preclude the construction of housing affordable by moderate-income housing, or the barring of all apartment construction--are not entitled to State grant monies raised from taxes paid by all our citizens. We anticipate a court test on this issue soon.

In 1972, we withheld, based on a Pennsylvania Attorney General's opinion, a recreation grant from a small suburban community near Pittsburgh, after careful study showed to my satisfaction that it was clearly guilty of exclusionary zoning practices. At the request of this community, we held an administrative hearing on the matter last December, and the Department's decision was upheld. The issue is now headed for the courts for final resolution, and I think that the decision of the courts will have National significance in determining whether state government can play a role in giving low- and moderate-income families a choice in their place of residence.

In order to help us determine whether exclusionary patterns exist in a given community, we have contracted with the Nationally-known Suburban Action Institute to make a number of studies for us of individual communities in Pennsylvania. We are also developing a housing allocation study for the metropolitan Philadelphia area, which will suggest a

"fair share" of low- and moderate-income housing units for dozens of communities. Finally, we have made heavy use of Federal 701 planning funds to undertake major housing studies, including projections of housing need and analysis of the housing market.

We also have a new and modernized housing finance agency which is just becoming operational. While the idea of the housing finance agency is not a new one, our Pennsylvania Agency will probably be the first in the Nation to finance the construction of single-family housing under a non-insured program.

I have discussed all these things to make one important point--the states can play a major role in housing, and, as our record in Pennsylvania shows, some states are currently playing such a role. My concern is that they continue to have the opportunity to do so in the future. With the sophisticated technical capacity in housing now available in Pennsylvania's State government to help communities of all sizes, it would be most unwise to bypass the State in any Federal legislation for community development or housing assistance.

And, the ability of the states to continue to play that role is at stake. -For example, without Federal housing subsidies, which were cut off in January, our efforts to "open up" suburban communities may be for nothing, since such Federal subsidies are often the only way in which moderate-income families can afford a suburban apartment or house. I urge you to keep the needs and potentials of the states in mind during the coming months as you consider new housing and community development legislation.

Finally, I wanted to offer some general thoughts on community development funding. I would be the first to admit that there have been some serious problems with the existing system of multiple categorical grants. However, I think that adoption of the Administration proposals to replace these programs with "formula giving" would be a serious error. I don't believe that formula giving, while perhaps appropriate for voluntary United Fund raising, has any place in the system of allocation of tax funds. Formulas which bring money easily to communities as a matter of right simply won't provide the incentive for the achievement of social goals that government, especially the Federal government, ought to be committed to. The allocation of funds by formula, in fact, can have opposite social effects, depending on local conditions and laws.

It is worth noting that under the categorical grant programs recently ended by the Nixon Administration, Pennsylvania was able to play a much larger and more creative role in the area of urban renewal than would be possible under the proposed Better Communities Act, which would severely limit the states' role.

Let me very briefly summarize what Pennsylvania accomplished under urban renewal over the past 22-years, during which the State has had a program which provided one-half of the local share for urban renewal programs. Some $200 million in State funds have gone to some 80 city and county urban renewal authorities to assist over 600 urban renewal projects, and over $1.1 billion in Federal urban renewal funds have come into Pennsylvania.

The perspective of the State is simply broader and more comprehensive than that of an individual community or county, and in Pennsylvania we have

not hesitated to use our leverage through various programs such as urban renewal to urge localities to do certain things, such as to control development on the unprotected 100 year flood plain.

For example, following the disastrous floods in the Wilkes-Barre area in June, 1972, the feeling of some local officials was that the most important flood-recovery priorities were to save the business structure and the tax base of the affected communities, even if that meant rebuilding on the flood plain and, to some extent, placing the needs of individual citizens in a lower priority.

With the leverage of millions of dollars in State urban renewal grants, we in Pennsylvania have been able to bring about some changes in these priorities, and I think that the people who live in these flood-ravaged communities may be better protected in the years ahead as a result of our efforts. We have also made qualification for the Federal Flood Insurance program a requirement for any flood-prone community that wants to receive State grant monies from the Department of Community Affairs.

We, of course, applaud 100 per cent Federal funding of community development costs, as proposed. The side effect, however, is to deny Pennsylvania the leverage it now has with one-sixth funding of total urban renewal costs in most cases to discourage exclusionary development practices and poor flood plain development practices. Thus, the community development legislation as finally adopted, from our point of view, should contain strong provisions for State monitoring of allocations, from the viewpoint at least, of these two concerns. In short, the states should continue to be able to apply incentives for sound community development based on appropriate social objectives.

This, then is the type of strong, advocacy role that the states can play, if the Federal government will cooperate. I hope that this Committee, as it considers various community development and housing legislation, will enable us in Pennsylvania to continue to play a strong role in these areas.

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ATTACHMENT A

STATEMENT BY JOHN M. McCOY, JR.
Executive Director
PENNSYLVANIA HOUSING FINANCE AGENCY

(Submitted as a supplement to statement
of Secretary of Community Affairs
William H. Wilcox)

We generally support the provisions of the legislation (S 3248) which the Senate overwhelmingly approved in 1972. This legislation consolidated the U.S. Department of Housing and Urban Development (HUD) programs and improved the basic subsidy programs. Our recommendations, therefore, are not for sweeping alterations, but for minor modifications which would make these programs even more productive.

One of the most encouraging developments to spring from the 1968 Housing Act is the growth of state and local housing finance and development agencies. Section 236 (b) contained a provision whereby state and local agencies could participate in the program on an uninsured basis. Largely because of this provision they have grown from two in 1967 to the present total of 33. While many of these agencies, like our own Pennsylvania Housing Finance Agency, are not yet fully operational, most will be shortly. We believe that the record of those agencies that are operational is outstanding, and that these agencies should continue to be encouraged.

Critics of these agencies have made two basic charges:

A. They only deal with a limited portion of the total housing and urban development problem.

B. Each Agency is somewhat different from the others in powers, procedures, and philosophical thrust.

We concede both of these points, but would argue that they are strengths rather than weaknesses.

It is true that these agencies do not deal with many of the programs administered by HUD. They have no responsibilities with regard to water and sewer grants, historic preservation, flood relief, or interstate land sales. In most cases, they have little or no role in comprehensive planning, health facilities, mobile home financing, land development, public housing, or new communities. In fact, they only deal with housing for persons below a certain income level. Precisely because their role is so limited, they are able to effectively administer the programs under their jurisdiction. As a result, to the extent that they assume responsibility for all or a portion of the administration of a given program, they relieve the burden on the staff of the HUD area or insuring office, freeing them for other programs.

As to the charge that there are differences between the various state agencies, we believe such differences are necessary and desirable. The housing conditions and housing needs of various states differ. Philaldelphia has a large number of housing units that were occupied while some states were still indian territory. The needs in New Jersey, our most densely populated state are certainly different from those of Alaska, one of our least densely populated states. Because these agencies are differently constituted, and because they have freely exchanged information and experience, they have all been able to profit from the experiences--good or bad--that one had had under a given procedure or philosophy.

Many of the programmatic changes embodied in the 1968 Housing Act, the 1970 Housing Bill and administrative procedures established over the last six years by HUD have been the result of experimentation by state housing finance agencies.

I would like to offer some specific recommendations to you:

1. We suggest that the Section 502 program (subsidized single family) permit financing on a non-insured basis by state and local agencies in the same manner which last year's bill permitted for the 402 (subsidized multi-family) program. Mr. Robert Malakoff of the committee staff has received this recommendation in a joint paper sumbitted by the staffs of several state agencies including the Pennsylvania Housing Finance Agency.

2. The Secretary of HUD should have the power to increase the percentage of low-income occupancy in the 402 program in rural areas. Last year's bill permitted up to 60 per cent low-income persons in housing for the elderly, but strongly recommended a 20 per cent limit in family housing. While the bill did permit flexibility above 20 per cent, there should be a stronger statement for increased percentage in rural areas.

3. The funds for interest reduction assistance under Section 402 and Section 502 should be combined into one appropriation and channeled through the states for allocation. Each state should then have the responsibility and the authority to reallocate the funds to broad geographic areas, and to determine the percentages that should be used for elderly, homeownership, and rental programs, based on the needs within those geographic areas. In those states with no direct financing capability, the funds would be administered by FHA, subject to the georgraphic allocations. In those states with direct financing capability, either all or a portion would be allocated to the state agency, depending upon its production capability. In addition to the obvious Congressional concerns over Equal Opportunity, Congress can and should make provision to insure that the geographic

allocation made by the state is fair and equitable, and that the state does not use these funds, or withhold them, for political leverage. It is important, for example, that the geographic allocations be braod, on a county or SMSA basis, in order to provide for a wide variety of developable sites, and to avoid the possibility of effectively excluding certain communities. While some people have argued that housing subsidies should be allocated directly to communities, we strongly oppose such a move, which would result in enabling communities to effectively ban the program.

4. State and local agencies should be granted the discretionary power to decrease the term of the mortgage loan, and to receive Section 502 assistance on the basis of the differences between actual interest and principal payments on the mortgage loan and the interest and principal on a one per cent forty year loan. (The difference here is that the hypothetical one per cent mortgage carries a longer term than the actual mortgage.) There should be a provision, however, that the maximum assistance payment would not exceed the maximum permissible on an FHA insured basis. Again, Mr. Malakoff has a more detailed analysis with number work prepared by the State Housing Agency Task Force. The result of this provision would be to reduce both the term of the mortgage and the total contractual obligations of HUD without increasing the basic rent. We believe that this provision would be particularly useful in the case of rehabilitation which is normally caught in the squeeze between shorter economic life and the need to achieve the lowest possible basic rent.

5. We believe that rehabilitation should be closely tied to community development programs. Much of the failure of rehabilitation to

date has been caused by the fact that while rehabilitation brings a substandard housing unit up to standard condition, the neighborhood itself remains substandard. If housing rehabilitation funds are restricted to those neighborhoods where there is a comprehensive community development program, we can preserve existing neighborhoods, and restore deteriorated neighborhoods to their former condition.

We do not believe, however, that new construction should be limited to community development efforts. The urban problem cannot be solved so long as low- and moderate-income families are denied access to housing throughout the metropolitan area. Our Department of Community Affairs has been leading the battle against exclusionary zoning, but our victories will only be Pyrrhic if assisted housing cannot be built in suburban communities once the zoning is made rational.

###################

ATTACHMENT B

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY AFFAIRS
HARRISBURG
17120

THE SECRETARY

July 17, 1973

The Honorable John Sparkman
Chairman, Senate Banking Committee
3203, Dirksen Senate Office Building
Washington, D. C. 20510

Dear Chairman Sparkman:

The Housing Assistance Council, Inc., a nonprofit organization seeking to increase the production of housing in rural areas of the nation, recently sent us copies of a paper they prepared analyzing existing Federal rural housing programs and suggesting possible new approaches in this area. This paper was submitted to U.S. Department of Housing and Urban Development Secretary Lynn in response to his request for comments on existing housing programs.

We have reviewed this paper and are writing to call it to your attention and to endorse some of the ideas it contains.

The report, entitled "The Federal Government and Rural Housing," is particularly useful in pointing out the consistent bias in favor of urban areas that has been a feature of national housing policy in this Country for years. As just one example of this, as of 1970, total Federal expenditure for housing, excluding public housing and rent supplements, worked out to $91 per capita in metropolitan counties, $40 in non-metropolitan counties, and only $35 per capita in most rural counties.

In the area of public housing, non-metropolitan counties, with 44 per cent of the bad housing, and 43 per cent of the poverty population, have only 22.5 per cent of the public housing units under annual contribution contract.

With regard to existing rural housing programs, the report states that the Farmers Home Administration Section 502 program, its version of FHA's Section 235, cannot serve the poverty-level rural families most in need of decent housing. The report does this by using some startling figures to illustrate, that, for some rural poor, operating

costs, including maintenance, utilities, taxes and insurance, total more than the principal and interest costs of a house. Therefore, some rural poor could not afford decent housing even if the house itself were free and all they had to do was pay the monthly maintenance and operation costs.

Housing Assistance Council notes approvingly the work of the Farmers Home Administration in making direct loans to home buyers, and adds that the Farmers Home Administration program has been free of the scandal which various Federal Housing Administration programs have suffered in the past few years.

In addition, the report makes a major recommendation which we would like to endorse and commend to you for strong consideration. This is the proposal asking that the Federal government recognize that the rural poor in the United States can be housed decently only by creation of a housing subsidy program which includes capital grants or a combination of capital grants and low-interest Federal loans. It seems clear from the current record that any housing program for the rural poor which does not include out-right grants will simply not make possible production of housing at costs which the rural poor can afford.

The report also suggests, and we recommend for serious study, the idea that instead of the wide variety of housing assistance programs which currently exist, housing assistance should be placed on a single continuum ranging from housing needs which only could be met with 100 per cent grants to housing needs which could be met with low-interest repayable Federal loans. This would offer flexibility that current housing programs, with fixed rates of interest, lack.

The report also urges caution in considering any proposals for a housing allowance program for rural areas. Primarily, Housing Assistance Council suggests that since the supply of decent housing in rural areas is currently woefully inadequate, housing allowances, without being coupled to a means of increasing housing production, would simply cause great inflation in the costs of the existing housing.

Finally, Pennsylvania is currently seeking funding from the Appalachian Regional Commission for a study to prepare Pennsylvania to deal with possible new Federal housing regulations which may be enacted in the future. This study will be conducted by a Washington, D.C. consultant firm, which plans to give detailed consideration to the proposals put forth by the Housing Assistance Council, Inc.

We sincerely hope that you will also give the most thorough consideration to the Housing Assistance Council's proposals as you prepare to enact new housing legislation.

Sincerely yours,

William H. Wilcox, Secretary
Department of Community Affairs

James A. McHale, Secretary
Department of Agriculture

ATTACHMENT C

A Pennsylvania Report

Urban Renewal

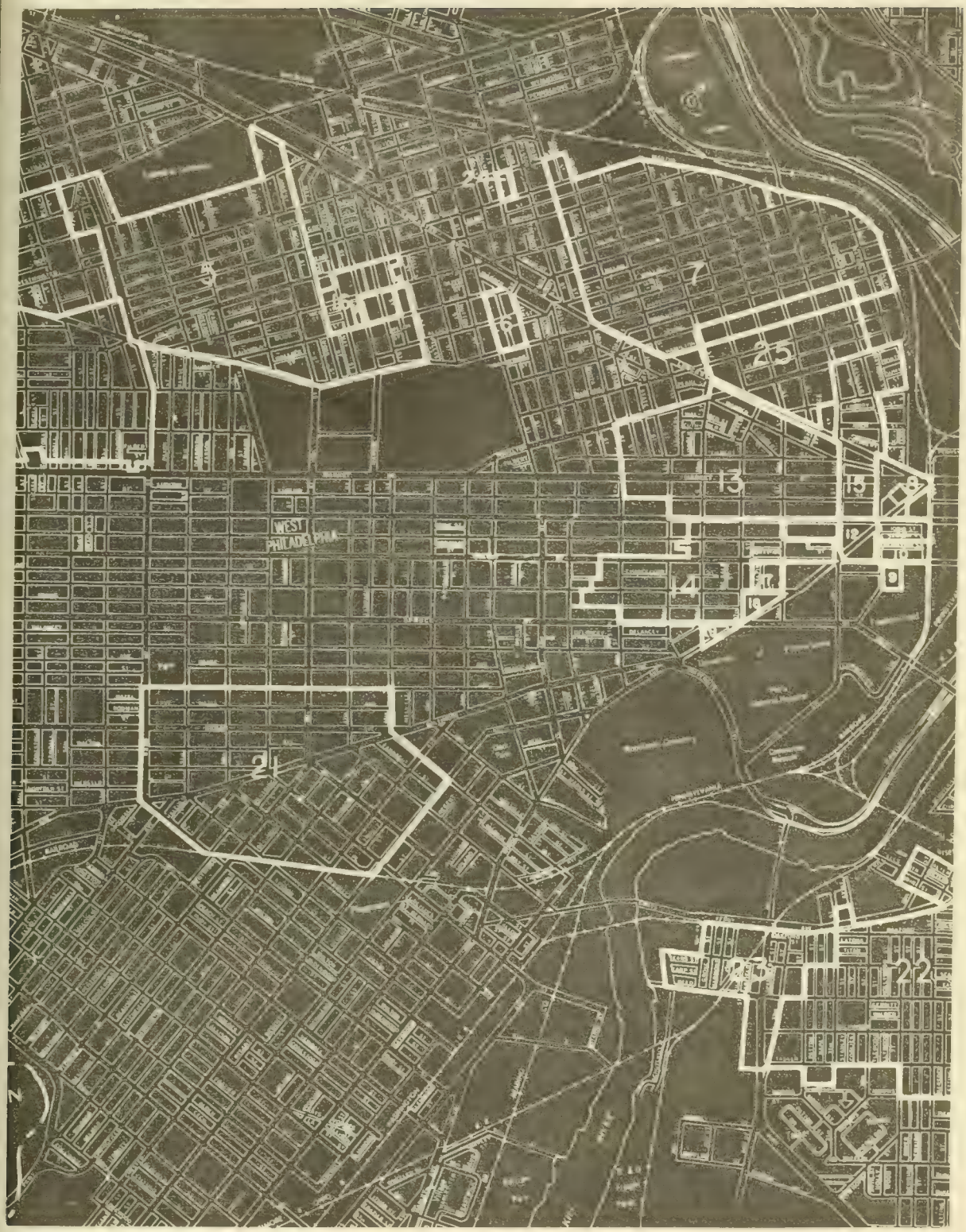
Housing Assistance



COMMONWEALTH OF PENNSYLVANIA

Milton J. Shapp, *Governor*

William H. Wilcox, *Secretary of Community Affairs*


WEST
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COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY AFFAIRS
HARRISBURG

THE SECRETARY

To the Citizens of Pennsylvania:

I have often felt that the urban renewal and housing assistance programs are two of Pennsylvania's best-kept secrets.

Although the urban renewal program has generated millions of dollars of investment in Pennsylvania communities, and the growing housing program is making possible thousands of homes for low- and moderate-income families, many Pennsylvanians are at best vaguely aware that these programs exist.

This report is an attempt to widen public understanding of Pennsylvania's urban renewal and housing activities. It makes clear the incredible return the taxpayers of this Commonwealth have received from a very small investment of their tax dollars.

In the wake of the recent and tragic flood disaster, this Department, like every other, is re-examining its entire program. Many priorities will change as the recovery effort continues. In hard-hit areas such as Wilkes-Barre and its neighboring communities on both sides of the Susquehanna, for example, long-range redevelopment plans such as the ones described in this brochure have less immediate urgency than meeting the housing needs of displaced flood victims and repairing the damage wrought by the flood.

This disaster increases the challenge to use our urban renewal and housing programs even more creatively for the purpose they have always had--meeting the most pressing needs of Pennsylvania's communities and citizens.

Sincerely,

William H. Wilcox
Secretary

Urban Renewal

For more than 20 years, the urban renewal program has been helping Pennsylvania's cities, boroughs and townships to build and rebuild. It has touched communities in 50 of the Commonwealth's 67 counties, generating new investment, new tax revenues and new jobs.

The production of low and moderate income housing was minimal at the start of the program, but has grown steadily in recent years. Rehabilitating older neighborhoods and acquiring land for new ones are now among the more common uses for urban renewal money.

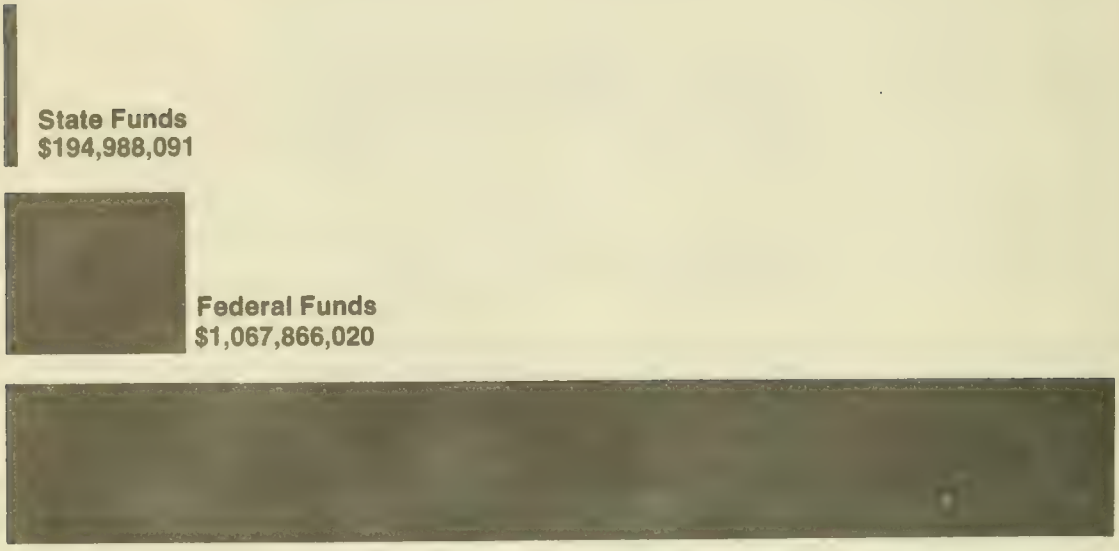
The program, which is administered by the Department of Community Affairs, is well known to most Pennsylvanians. But the sources of its support are less visible.

Many Pennsylvanians are not aware that almost $200 million of their state tax dollars have gone into the urban renewal program since it began in 1949.

It is, in fact, only because of the continued support of the Commonwealth's taxpayers and their legislators that Pennsylvania is first among the 50 states in urban renewal, with almost 500 different projects completed or underway.

From the $200 million Pennsylvania has invested in urban renewal has come more than $1 billion in Federal funds—a bigger share of Federal renewal money than any state's except New York—and at least $7 billion in private spending.

The Pennsylvania Renewal Multiplier



Since 1949, Pennsylvania has appropriated $194,988,091 for urban renewal.[1]

This has made Pennsylvania eligible for $1,067,866,020 in Federal urban renewal funds.[2]

Federal, state and local spending on urban renewal has generated at least $7,000,000,000 of private investment in Pennsylvania communities.

[1] *As of 6/30/72*
[2] *As of 6/30/71*

How Does Pennsylvania Make It Work?

BY HELPING TO MATCH FEDERAL DOLLARS

The Federal Government will pay for two-thirds or three-quarters of any urban renewal project it approves, depending on the size of the community.

It will also grant credits to a community for improvements in or near the project, such as schools and sewers and highways.

The rest has to be paid in cash. In Pennsylvania, almost all of that cash is provided by the state.

The state puts up 72 percent of the required non-Federal cash for the average urban renewal project. Outside of Philadelphia and Pittsburgh, it puts up 90 percent. In some communities, it provides even more.

Here are a few examples:

County	Municipality	Project	State Share of Non-Federal Cash
Allegheny	Wilkinsburg	Wilkinsburg West	93%
Dauphin	Harrisburg	Walnut Street	100%
Delaware	Chester	Neighborhood Development Program	100%
Lackawanna	Scranton	Central Tech	100%
Schuylkill	Pottsville	Center Street	100%
Venango	Oil City	Gateway	96%

BY GIVING COMMUNITIES MONEY TO PLAN

The state gives planning grants to communities to help them qualify for urban renewal dollars.

Since 1949, it has given more than $6.8 million of these planning grants to local redevelopment authorities. This initial outlay has brought more than $234 million in Federal urban renewal funds to the communities involved—a 40 to 1 return.

In the last four years, 78 percent of these planning funds have gone to communities with less than 25,000 people. Half of that amount has gone to communities of under 10,000 people.

BY SUPPORTING SOME LOCAL PROJECTS

Some state money goes to support worthy urban renewal projects which do not meet Federal guidelines or are unable to get Federal dollars.

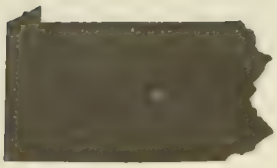
In 1970-71, the state spent $2,823,664 on these state-local projects, about 14 percent of its total spending.

In addition, the state has appropriated more than $2 million during the past three years for code enforcement projects. An increasing share of this money has been going to state-local programs for regional code enforcement.


CRIE
WARNER

Erie:

Rebuilding a Center City



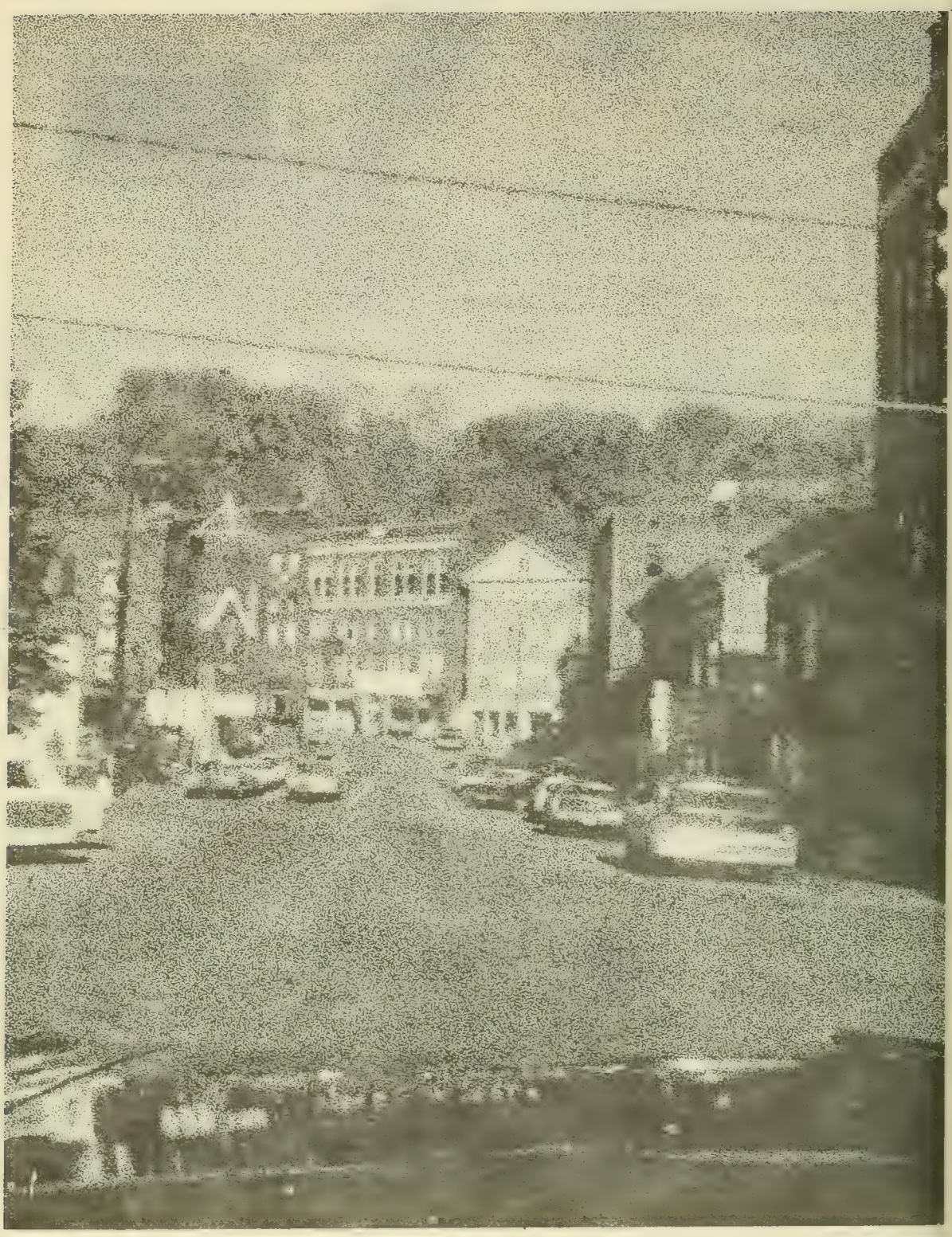
The old downtown Erie was picturesque—and obsolete. Poor traffic circulation, insufficient parking, lack of shopper conveniences, disrepair and neglect were all reflected in falling property values. On some sections of State Street, storefronts were going for $5 a month plus taxes. There were no takers.

In 1965, Erie set out to stop this seemingly irreversible decline. It got $2.1 million in grants from the state, and that in turn made possible $15.8 million in Federal grants.

Erie used the money to create a new center city—a new Municipal Building, college classrooms, office buildings, shopping malls, hotel, high-rise housing and housing for the elderly, parking areas, sidewalks and sewers. Private investment helped make it possible.

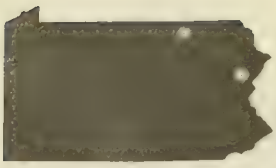
In the 12-block downtown area alone, there will be $11 million more in tax ratables when renewal is completed than there were when it started. Commercial activity is growing and should grow even more with the completion of the State Street Mall, open only to pedestrians and public transportation.

Erie now has a firm economic base. It wants to use that base in the 1970's, according to its Redevelopment Authority, to help create better housing and a better living environment for Erie residents.



Susquehanna Borough:

Saving a Small Town



For Susquehanna Borough, it had become a question of survival. When the main repair and coach shops of the Erie Railroad closed down in the '50's, poverty began to set in. A decade later, the borough's unemployment rate was above 11 percent. Its young, productive people were moving out.

No commercial development had taken place in the borough for years. Many stores had shut down. The one new business the Industrial Development Corporation brought into town had layoffs and labor trouble and didn't really lift morale.

Yet some community spirit remained. It was reflected in the support for a new consolidated high school and a new fire company building. Most of all, it was reflected in Susquehanna's desire to do something about its downtown, which was dying for lack of anything to attract people to it.

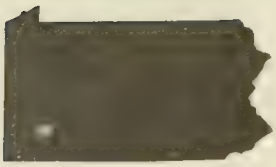
But the borough had no comprehensive plan nor codes and couldn't meet the Federal requirements for urban renewal. So it turned to the state with a plan for acquiring and demolishing three older downtown buildings, two of them vacant. They would be replaced with parking spaces and a lot that would be sold to a commercial developer for new stores.

The state agreed and the project got underway last year. The total cost to state taxpayers was $23,350—a small item, barely noticeable in the state redevelopment budget. In Susquehanna Borough, it may have been the price tag for survival.



Philadelphia:

Rehabilitating A Community



Ten years ago, a section of the old sewer that runs through the West Philadelphia neighborhood of Mill Creek collapsed, killing three people and plunging several houses into the sewer bed.

Philadelphia's Redevelopment Authority was called in the wake of the disaster to acquire other houses along the sewer bed, raze them and use the sites for recreation purposes, not for housing.

But it was clear to many of the 14,000 residents of West Mill Creek that a quieter, longer-lasting disaster was taking place throughout the community. Its 2200 row homes, most of them almost fifty years old, were only in fair to poor condition. The evidence of decay was mounting— graffiti-covered walls, empty lots, litter.

The Redevelopment Authority decided to try averting that disaster. But it needed state help. The state came through with $1.85 million in urban renewal funds. This helped Philadelphia to obtain $11.3 million in Federal funds. With this money, the Redevelopment Authority was able to acquire several tracts for new housing and several properties for rehabilitation.

So far, more than 300 new homes have been built or are under construction and almost 500 houses have been rehabilitated. The state helped with the housing through grants to the non-profit Philadelphia Housing Development Corporation. PHDC has built a neighborhood of 55 homes in the $18-19,000 range, is rehabilitating 80 properties and plans to build 56 more units. Without a $306,800 grant from the Department of Community Affairs, PHDC would have been unable to start this work or qualify for Federal subsidies.

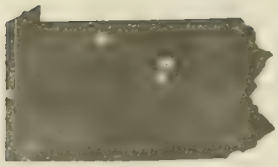
There have been other benefits to West Mill Creek. A new YMCA facility is being built. Some of the home rehabilitation work was done by a black contractor recruited through the Philadelphia Urban Coalition.

Recently, the state gave Philadelphia almost $400,000 to plan more housing renewal in areas adjacent to West Mill Creek. The city has had many examples of how decay and abandonment spread from one community to another. Now West Mill Creek may show that renewal and rehabilitation can do the same thing.



Lebanon:

Keeping a Neighborhood Together



More than a fifth of Lebanon's families live on its north side. They are mostly working people, with moderate incomes.

The row and semi-detached homes they live in were built 60 to 70 years ago; many of them are still occupied by the sons and daughters of the builders.

But, by the mid-1960's, the signs of physical wear were unmistakeable. The exterior walls of many houses were eroded; sidewalks were crumbling; streets were cracking.

Lebanon turned to the state to prevent the decay from getting more serious. It got a $160,000 planning grant which later enabled it to obtain $3.3 million in Federal renewal funds.

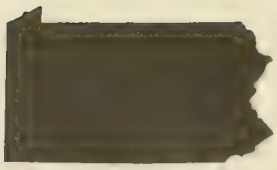
With that money, Lebanon is having 592 north side homes rehabilitated. It has also cleared some land for a new city fire station, a small tot lot and playground, new moderate income housing and industrial expansion.

The entire Neighborhood Development Program will take two or three more years to complete. By then, the north side will look like the stable neighborhood its families want it to be.



Pittsburgh:

Building All-Income Housing



The Essex House, when it is completed, will probably be renting apartments for above $250 a month. Penn Plaza and Pennley Park have rents ranging from $130 a month to $200. The Harriet Tubman Terrace charges from $40 to $72, depending on your income.

What they have in common is that their construction was made possible by Pittsburgh's East Liberty urban renewal project.

The main goal of the 254-acre project, one of the largest in the country, is to provide more low-and moderate-income housing. But since 1961, when renewal got underway, it has also been an incentive for diverse housing and commercial development.

East Liberty was Pittsburgh's largest commercial area until after World War II, when it began to give in to competition from suburban shopping centers. In the mid-1950's, Pittsburgh sought state and Federal help to save the area. It got $8.7 million from the state; this helped make possible $40.9 million from the Federal government.

Since then, its Urban Redevelopment Authority has torn down 1,500 dilapidated housing units—which are being replaced with 1,900 new units. In addition, more than 1,000 units are being rehabilitated.

The housing now available in East Liberty ranges from public housing, rent subsidy and subsidized ownership to moderate-and high-income rentals. There are also new community facilities such as the Tubman Terrace, which has special facilities for the elderly and handicapped, as well as a new park, stores and pedestrian malls.

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ARCO

Wilkes-Barre:

After A Disaster



The devastating floods of June, 1972, brought on by hurricane Agnes, occurred while this publication was being prepared. The Commonwealth was declared a disaster area by the U.S. Office of Emergency Preparedness because communities across the state had suffered serious damage to their housing and building stock.

Most hard hit of all the areas in the state were the City of Wilkes-Barre and its neighboring communities in the Wyoming Valley on both the east and west sides of the Susquehanna River.

In Wilkes-Barre, approximately 5,000 residential units and 1,500 commercial structures sustained major structural damage of an estimated $65 million.

Another 15,000 homes and buildings were damaged in such West Shore communities as Kingston, Forty Fort, West Pittston, West Wyoming, and Swoyersville.

Among the first grants provided to these beleaguered communities was a $7 million grant from the Pennsylvania Department of Community Affairs to the combined Wilkes-Barre and Luzerne County Redevelopment Authorities.

The funds were to undertake site development for temporary housing and to face urban development problems caused by the flood.

Urban Renewal —The Job Ahead

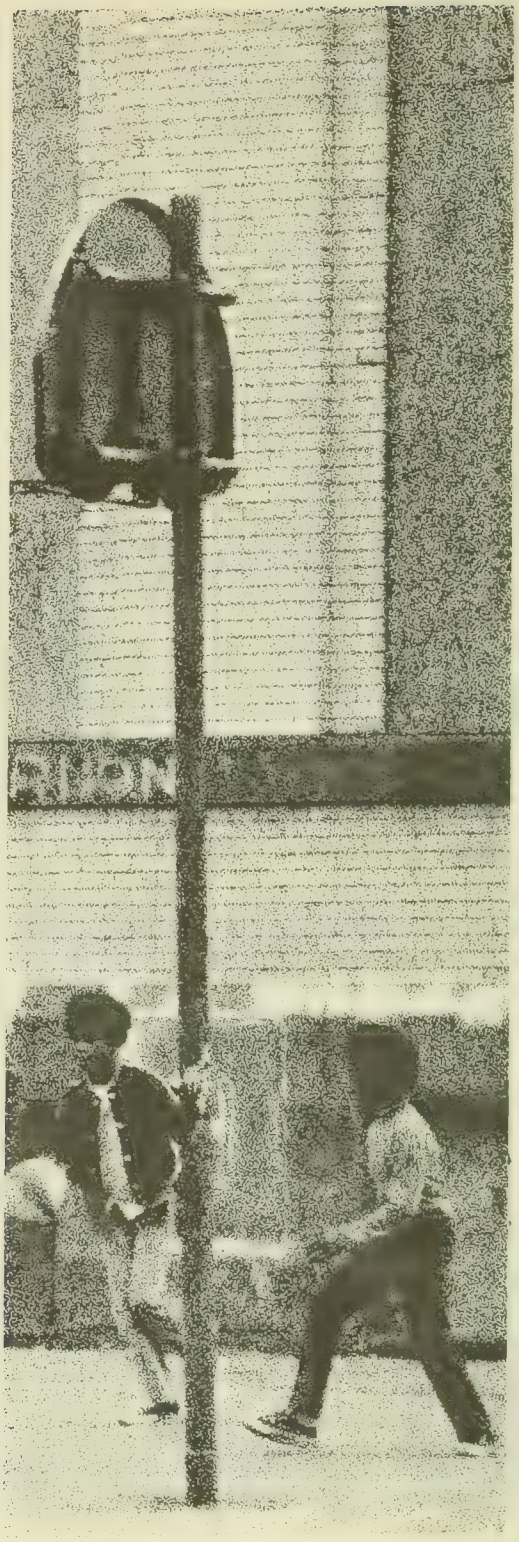
— An even greater share of urban renewal funds must be used to provide housing for Pennsylvania's low and middle-income families and elderly people.

— More attention must be paid to rural poverty in Pennsylvania. Programs to fight urban and rural blight must be more closely linked.

— Blighted neighborhoods have human problems as well as physical problems—crime, drug addiction, alcoholism, unemployment. More emphasis must be placed on dealing with these problems.

— For less affluent communities, the Commonwealth should develop variable funding formulas which would take into account both the nature of each urban renewal project and the financial situation of the community.

— In general, there should be an effort to find new and more productive uses for urban renewal funds.



Housing Assistance

"No amount of rhetoric will solve Pennsylvania's housing problem. The Commonwealth has not done enough on its own behalf. There is a great deal it can do—if it has the will."

Governor's Housing Task Force, 1969

Pennsylvania has a long way to go in meeting the housing needs of its low and middle-income families. It still lags behind many of the major industrial states in its efforts to spur housing production.

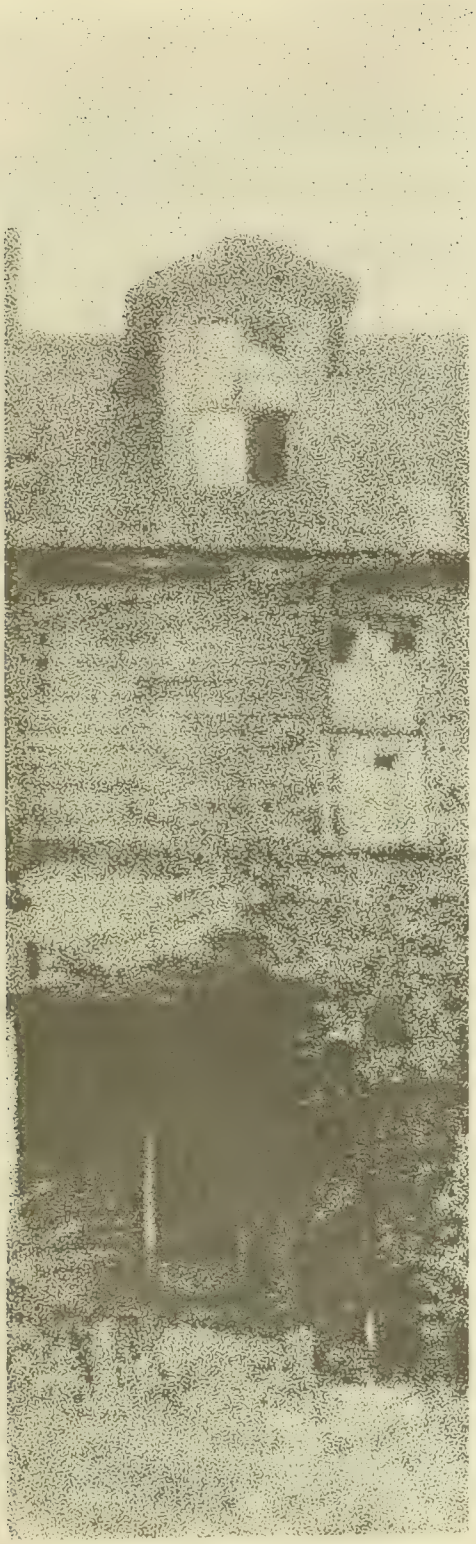
But there have been some major advances since the Housing Task Force made its report:

The Commonwealth, through the Department of Community Affairs, has given public and non-profit housing sponsors more than $6 million. This will make it possible for them to obtain Federal subsidies and/or mortgage financing for almost 10,000 units of new and rehabilitated housing.

Through the Pennsylvania Housing Agency and the state and school employes' retirement funds, the Commonwealth has committed itself to buying $4 million in low-cost mortgages, bringing home ownership within the reach of more than 400 Pennsylvania families.

The Department of Community Affairs has financed job training in home rehabilitation and construction; helped businesses to get tax credits for investing in non-profit housing developments and supplied professional housing consultants to the Model Cities program.

In addition, an increasing share of Pennsylvania's urban renewal money is being devoted to housing.



Pennsylvania's Investment in Housing

Aid to Housing Sponsors		$6,264,895 [1]
Pennsylvania Housing Agency (Mortgages)		1,604,500 [2]
State & School Employes Retirement Funds (Mortgages)		2,393,053
Manpower Training		547,657
Tax Credits		80,190
Anti-Poverty Programs		63,599
Model Cities		47,000
	TOTAL	**$11,000,894**

[1] *As of 12/31/71*

[2] *As of 3/22/72*

(This total reflects Pennsylvania's direct investment in housing. It does NOT include Pennsylvania's spending on urban renewal programs, many of which produce housing.)

Pennsylvania's Return On Its Investment

9,848 units of new and rehabilitated housing

425 mortgages for low-income families[1]

$187,112,000 in new construction value

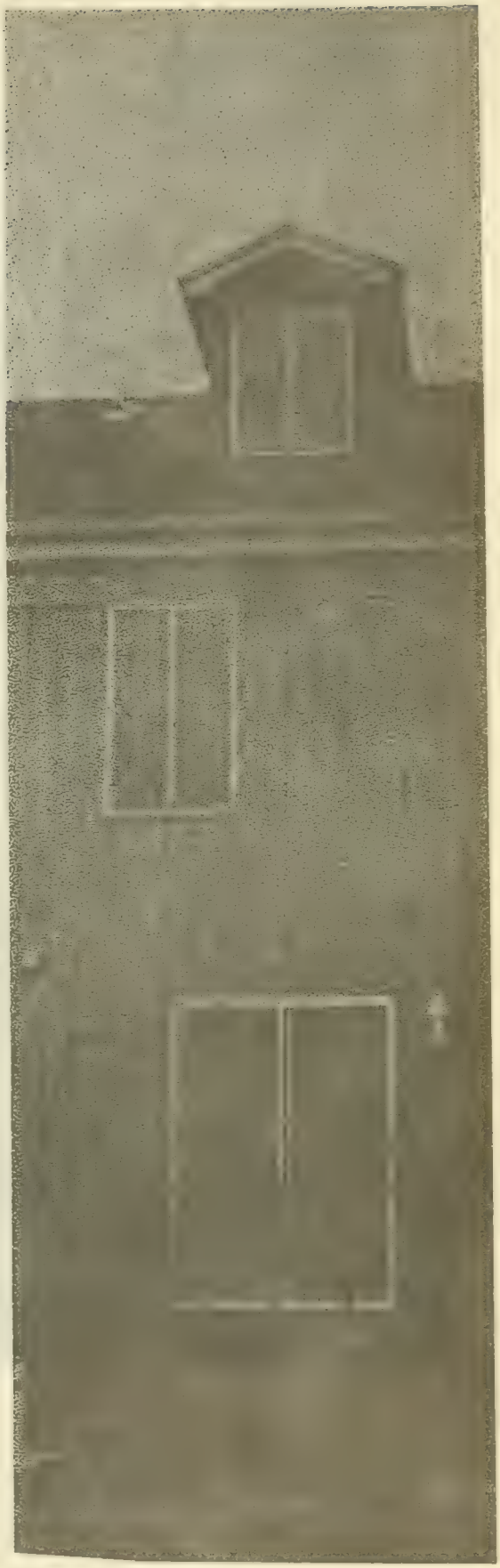
19,000 construction jobs for one year

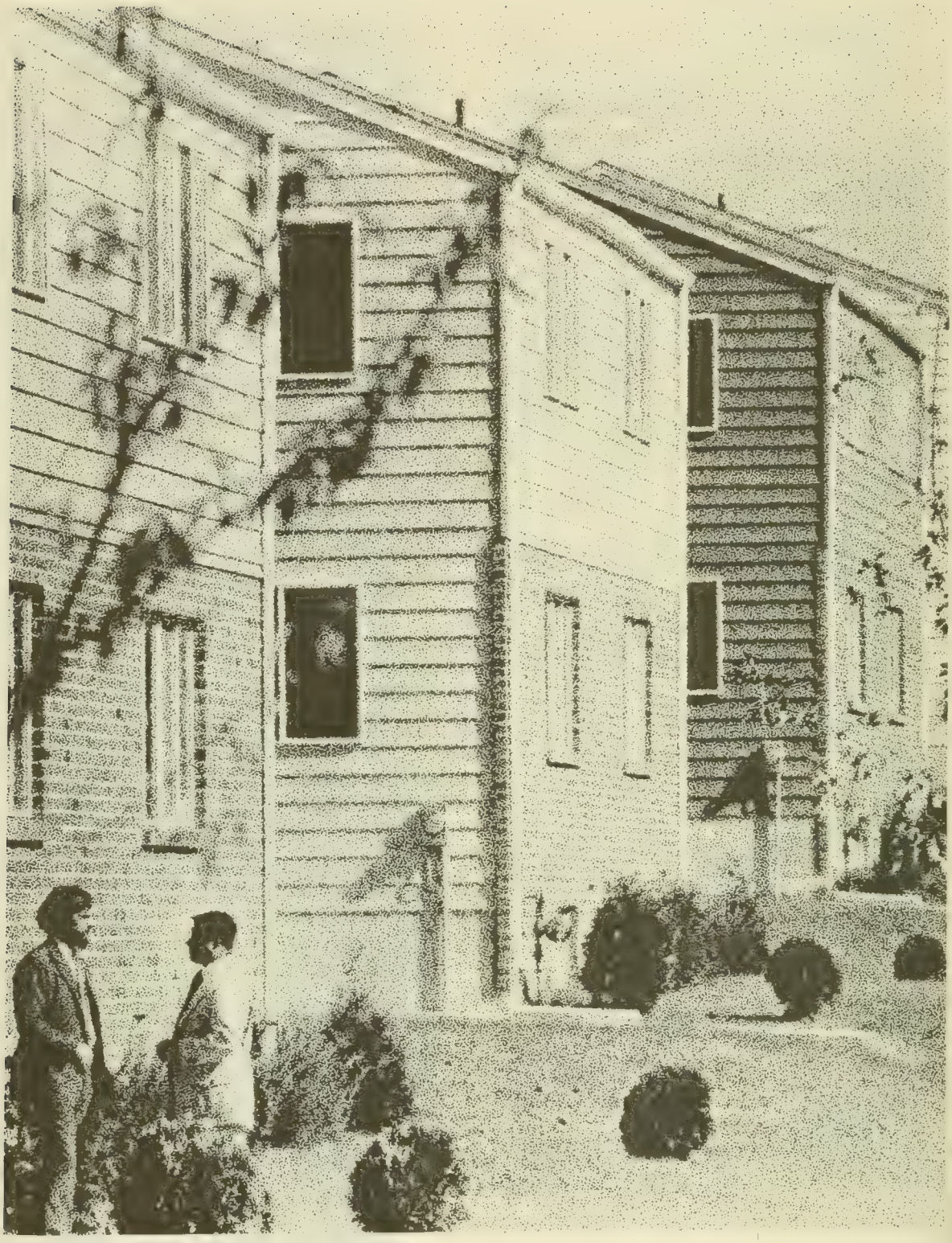
$4,294,000 per year in additional local real estate taxes

$8,863,200 per year in additional Federal housing funds

[1] *As of 3/22/72; all other figures as of 12/31/71*

(These figures measure the impact of Pennsylvania's direct investment in housing. They do NOT include any of the non-state-aided housing construction which is being generated by Pennsylvania's spending on urban renewal programs.)





Philadelphia-Chester Township:

To Own A Home



Building an attractive community of homes that low- and moderate-income families can afford isn't an easy job.

But the Maple Corporation, a non-profit group, had been set up by the Haas Community Fund in Philadelphia in 1967 to aid just those families in obtaining a decent place to live.

So the Corporation eagerly took on the challenge of building 154 four-bedroom twin homes for families earning from $6,500 to $9,000 a year on 28 acres of urban renewal land in suburban Chester Township, Delaware County.

It decided to seek financing for the homes under Section 235 of the National Housing Act. This provides Federal subsidies which can push interest rates down as low as one per-cent. Without these subsidies, new homes in today's market are mostly out of reach for low and middle-income families.

But the maximum cost per house allowed under the Section 235 program is $23,000. The Maple Corporation found it couldn't get the homes built in the Philadelphia area for less than $25,000 apiece.

So it turned to the Department of Community Affairs to make up the difference. The Department responded with a housing assistance grant of $121,220—enough for the first stage of 58 homes.

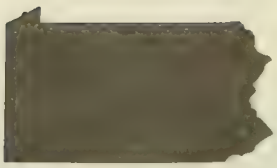
Now, almost all of these homes are built, many families have moved in, and plans for the second stage of homebuilding are underway.

"It would have been impossible to build housing for ownership by low and middle-income families anywhere in the Philadelphia metropolitan area," the Corporation's executive director wrote recently, "without the assistance of the state through Community Affairs."



Altoona:

Housing Versus Empty Lots



The six houses stood facing Lexington Avenue a few blocks from downtown Altoona, in the middle of a neighborhood that had been residential for 75 years.

The city had red-tagged them, meaning they were unfit for living. It was preparing to tear them down.

Improved Dwellings for Altoona, Inc., a coalition of religious groups, asked the city not to. Why should there be a weed patch defacing a good neighborhood, with the city responsible forever for its upkeep—when the houses could be rehabilitated?

The state had given IDA $129,500 in housing assistance funds to start work on the estimated 900 to 1500 units in the Altoona area that could use rehabilitation. Those six houses became the first.

IDA started work in 1971. It was a total job: new wiring, plumbing, heating, kitchen, bedrooms, bathroom, roof, porch. By the beginning of 1972, they were finished, in "good as new" condition. Six houses ready for sale at $12,500 each—instead of an empty lot.



Fayette County:

Those Who Help Themselves



They are the "patch villages." Located outside the small urban hubs of counties like Fayette, they are held together only by their people's desire to be there or lack of desire to be somewhere else. Their housing reflects this; in Fayette County, 47 percent of the housing is substandard.

Smock is a town of 454 persons, six miles north of Uniontown on Route 51. It was a typical "patch village"—until 1970, when a group of former anti-poverty workers who call themselves Concerned of Pennsylvania, Inc., took the risk of believing it could be something better.

They helped to form a Smock Citizens Committee. With grants from church groups and $25,000 in seed money from the Pennsylvania Department of Community Affairs, they purchased several old homes and some ground.

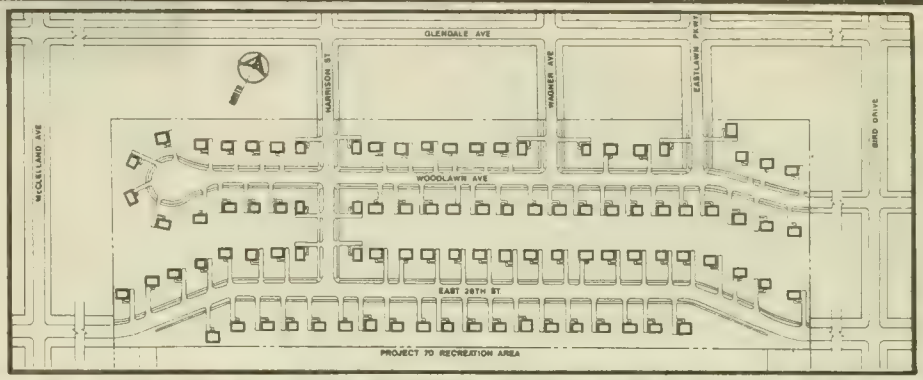
Then the rehabilitation began. It was an unlikely work crew—volunteers from around the county; students, including retarded students, from the tri-county intermediate school; Neighborhood Youth Corps workers; people on welfare.

But they did it. The first few units, totally rehabilitated, have been sold for $9,500. And Concerned of Pennsylvania has begun work in Dunbar, another little Fayette County town.

It is too early to say what their success means. Maybe just four or five houses in a small rural Pennsylvania town. Or, maybe, the beginning of hope for a lot of small towns.

The Homeowner's Subdivision

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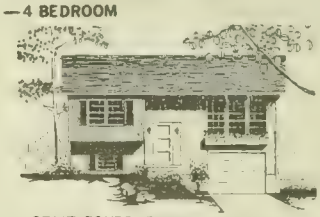
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Erie:

The Need Is Obvious



To a group of citizens in Erie, it was obvious: The need for moderately priced housing was there. The land for moderately priced housing was there. The financing for moderately priced housing could be put together—but only if there was a non-profit corporation with a little capital behind it.

So they created the Metropolitan Erie Housing Development Corporation. They sought, and got, $150,000 in seed money from the state housing assistance program, through the Department of Community Affairs.

With that, they were able to obtain loans to purchase and develop a 20-acre site in Erie. They got permanent mortgages totaling almost $2 million for 93 homes and qualified for Federal subsidy programs. They convinced the city to construct storm sewers, water line installation and street lighting.

Now more than a third of the homes in "The Homeowners' Subdivision" are occupied, and Metro Erie has gone on to a new project: a 300-unit planned residential development in nearby Millcreek Township.

They have obtained another $150,000 in state seed money to get the development going. They will call it the "Modern Average American Neighborhood"—because they want to make clear that the only way to get good housing today for the modern average American is if concerned citizens, and their government, are prepared to help.

Housing Assistance — The Job Ahead

— The concentration of low-and moderate-income housing in Pennsylvania's center cities must be reduced. The Department of Community Affairs is monitoring state and local land use controls to encourage communities to develop balanced residential patterns. The grant programs of the Department, including recreation and planning, are being administered so as to encourage communities to authorize housing for families of all races and economic levels.

— The Department of Community Affairs will continue to work with Federal officials to encourage the development of new communities in Pennsylvania and the building of "new town" projects within its cities and metropolitan areas.

— Urban renewal funds will be used in more innovative ways to spur the production of low and moderate-income housing, including housing in rural areas.

— The 12-year-old Pennsylvania Housing Agency can begin to play a major role in helping Pennsylvania's low and moderate-income families and the elderly to find good housing. If proposed legislation is adopted, the Agency will have wider powers to finance single and multi-family housing and make loans to developers of such housing.

— Industrialized housing production should continue to grow with the assistance of state agencies, making it easier to increase the Commonwealth's housing supply at reasonable cost.

The CHAIRMAN. I would agree with you completely on that. Where the arrangement is such that there is a close tie, that is a different proposition. Thank you very much. You have given us a very fine statement.

We have one more witness, Mr. Richard Tucker, Deputy Director of the Housing Assistance Council.

STATEMENT OF RICHARD TUCKER, DEPUTY DIRECTOR, THE HOUSING ASSISTANCE COUNCIL; ACCOMPANIED BY ARTHUR COLLINS

Mr. TUCKER. Thank you, Mr. Chairman. I am Richard Tucker, Deputy Director of the Housing Assistance Council. With me is Mr. Arthur Collins, one of our members of our technical staff. We have submitted a full statement of the Council position on a number of matters. I would like if I may to try to summarize that statement for you.

The CHAIRMAN. Very well.

[The complete statement of Mr. Richard Tucker may be found at p. 598.]

Mr. TUCKER. The Housing Assistance Council is an organization funded by OEO to provide training, technical assistance and seed money to private and public sponsors of low income rural housing. Since its creation we have tried to perform those functions and also publicize the need and crisis in rural housing.

Our statement contains some of the well known statistics about situations in rural areas. I am sure you are very familiar with those so we can skip those. Your committee has before it Senate bill 361, the Emergency Rural Housing Act, originally introduced by Senators McGovern and Abourezk.

This bill has much to recommend it, as it is addressed to the three major rural housing problems facing us today. First, it recognizes the necessity to develop a comprehensive system of low income housing delivery institutions to serve all rural areas of the country.

Second, it recognizes that most housing subsidy programs, especially the home ownership programs appropriate to rural needs, do not serve the very poor. Finally, the Emergency Rural Housing Act emphasizes that effective Federal action requires a recognition that the housing problems of rural areas are distinct from and equally severe as those of our larger cities, and that they demand at least an equal amount of attention in their own right.

I would like to briefly expand on some of these points.

First on the point of housing delivery system. You have heard today from various representatives of the cities and States. In the cities there are institutions that deliver housing both private and public institutions. The major problem in the rural areas is that first of all there are no public institutions for the most part dealing with delivering housing and community services and the private market is also absent in terms of lending institutions, builders, nonprofit corporations, interested in housing production, et cetera.

We feel the first step is to develop public agencies needed to deliver these housing opportunities to rural areas. We think that those kinds of agencies should have two basic characteristics. First they should

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have regional jurisdiction. Earlier in the morning you made reference to the State of Alabama and the success of its regional planning commission.

We think this same type of success could be employed in the regional housing. The regions are nearly the same. In many rural areas there is not a demand for housing sufficient to make that housing financially feasible in terms of management and getting the kinds of staffing that you want to run your housing agencies.

We believe that if some of this can be regionalized, both management and the opoprtunity to get the staffing you need will be greatly enhanced.

Second, we think that the agencies should have the power to deal with all housing and community development problems and that would include water and sewer and so on. This includes everything involved in the broad term of community development.

To establish these kinds of agencies we feel that it is necessary for the Federal Government to provide an incentive for localities to join together. We feel this incentive should be entitlement under whatever community grant, or block grant legislation is finally passed.

We believe that areas which have regionalized and which have put together effective delivery systems ought to be entitled to a portion of those grants such—just as the cities and the urban counties and metropolitan areas are entitled to certain appropriate shares.

Let me preface my remarks now that since we are an OEO funded organization, we are primarily interested in housing for those people who are at the lowest level. We are talking about people at the poverty level. In that respect, I think it is quite evident that most of the subsidized housing programs today, both in FHA programs and Farmers Home programs, do not effectively reach this level.

Again, our statement contains statistics which will support that position. The one program we feel that does have the kind of subsidy and the kind of overall ability to serve the people in these lowest income areas is the public housing program.

Unfortunately, to date the public housing program has had little or no success in the rural areas. In that regard we would urge the committee first that we believe the public housing program should be continued. Second, we believe that considerations should be given to making statutory allocations in this program for rural areas.

I am skipping over much of this material and we ask you to read it at your leisure. Basically, I think that summarizes our position. I would conclude by saying that the programs that we have today are not serving the rural areas, they are not serving the poorest people in the rural areas; we believe that consideration should be given to developing an effective delivery system to serve those areas, and that consideration should be given to developing subsidy programs which would serve the lowest income people in those rural areas.

I think that it is time that the problems of rural areas are recognized as being as bad, if not worse, than the problems in urban areas. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Tucker.

I have gone through your paper more fully than you presented it. You have some very good suggestions in there with reference to legislation that would help provide housing in rural areas.

I strongly support an active program for rural housing. We have been slow in getting things going in rural areas, certainly to the extent that they ought to be moving ahead. I am sure the committee will be glad to have your suggestions and will take into consideration your remarks about this legislation.

Thank you very much.

Mr. TUCKER. Thank you, Mr. Chairman.

The CHAIRMAN. The committee will stand in recess now until 10 a.m. on Friday morning; that is, tomorrow morning.

[Whereupon, at 12 noon the subcommittee recessed, to reconvene at 10 a.m., Friday, July 20, 1973.]

[Complete statement of Mr. Tucker follows:]

Housing Assistance Council Inc.

Suite 600
1601 Connecticut Ave., N.W.
Washington, D.C. 20009
(202) 483-1426

Executive Director
Gordon Cavanaugh

STATEMENT OF RICHARD TUCKER,
DEPUTY DIRECTOR OF THE HOUSING
ASSISTANCE COUNCIL, INC.

SENATE SUBCOMMITTEE ON HOUSING AND
URBAN AFFAIRS

July 19, 1973

Mr. Chairman and Gentlemen of the Committee: I am Richard Tucker, Deputy Director of the Housing Assistance Council, an OEO funded organization which provides training, technical assistance, and seed money loans to public and private sponsors of rural low-income housing. Prior to the Housing Assistance Council, I was the Executive Vice-President of the Philadelphia Housing Development Corporation, and also the Executive Director of the Philadelphia Housing Authority. I appreciate this opportunity to share with this Committee some of the things I have learned about rural housing problems since leaving the nation's fourth largest city.

Since its creation the Housing Assistance Council has worked, along with several other rural housing organizations, to document and publicize the severe housing problems of the rural poor. We have been pointing out the fact that rural areas have only one-third of the nation's population, but approximately one-half of the

Lenin Juarez, Director — Southwest Regional Office
1404 San Mateo Ave., S.E. • Albuquerque, New Mexico 87108 • (505) 268-4351

poverty and the inadequate housing. Repeatedly, we have shown that the incidence of bad housing in non-metropolitan areas is three times greater than in the cities; one non-metropolitan house in eight is inadequate, as compared to one metropolitan house in twenty-five. We have tried especially to point out the plight of minority groups - that, for example, 3 out of every five black families in rural areas live in bad housing, or that approximately one-quarter of a million hard working farm labor families do not have a decent place to live.

We have, in effect, sought various ways to illustrate the same simple point--that there is a housing crisis of vast proportions in rural areas. Always we have hoped that each new set of figures, each new revelation, would make more people take notice of the problem, and perhaps help in some way. We will continue bringing to light rural housing conditions and problems, because much remains to be investigated and documented, and so many people remain to be convinced that the problems exist.

However, among us here today - legislators, policy makers, housing professionals - there is no need to recite the statistical litany of rural housing problems. We, at least, are only too well aware that they exist, and the task before us is to devise the best ways to meet these problems.

This Committee now has before it Senate Bill 361, the Emergency Rural Housing Act, originally introduced by Senators McGovern and Abourezk. This Bill has much to recommend it, as it is addressed to the three major rural housing problems facing us today. First, it recognizes the necessity to develop a comprehensive system of low-

income housing delivery institutions to serve all rural areas of the country. Secondly, it recognizes that most housing subsidy programs, especially the home ownership programs appropriate to rural needs, do not serve the very poor. Finally, the Emergency Rural Housing Act emphasizes that effective federal action requires a recognition that the housing problems of rural areas are distinct from and equally severe as those of our larger cities, and that they demand at least an equal amount of attention in their own right. I would like briefly to expand on each one of these points.

Housing Delivery System

Coming from a major city, I found one very serious barrier to the development of low-income housing in rural areas for which I was entirely unprepared. In the cities,we have acomplete set of housing and housing related institutions - often referred to as a delivery system - which produce low-income housing. In the cities we are concerned more with the scarcity of housing subsidies than with the adequacy of our institutions. In small towns and rural areas, however, it is not just insufficient funding of federal subsidy programs that prevents an adequate response to housing needs, but also the virtual non-existence of the public and private agencies and institutions necessary to deliver the subsidies that are available.

For example, a study completed last year by HAC, now receiving wide circulation, showed that one-half of the nation's counties, almost all of them rural, still have no public housing at all. This is most often because they have no public housing authority to give impetus to the development of low-income housing. Beyond public authorities, though, the institutional scarcity includes all types

of housing delivery mechanisms,such as builders, lending institutions, limited dividend and nonprofit developers, or renewal and code agencies. Because most existing housing programs depend on some local public or private institutions, they just will not serve many rural areas if the institutions do not exist and the initiative is not forthcoming.

Even the Farmers Home Administration single-family home program, which is administered through the FmHA county office, often requires some sort of third party intervention, such as an interested builder/developer or a community organization, to educate people to the housing options open to them and actively help them qualify for assistance. While we do not have enough hard data available, what we have discovered suggests that the wide variations in performance among Farmers Home county offices is largely related to the presence or absence of other housing institutions in a given area.

Based upon our experience with rural housing and community development problems, the Housing Assistance Council is firmly convinced that small towns and rural areas will not be able to take full advantage of whatever housing and community development assistance is made available to them until they develop the institutional capacity that is so sorely lacking. The development of strong rural housing and community development institutions is a necessary first step, and one we suggest can be simply and effectively taken through a strong federal initiative to encourage the creation of a comprehensive network of publicly created rural housing and development agencies.

The type of rural housing and development agencies I am speaking of here would have two basic characteristics. First, they would have regional jurisdictions. There is evidence that small housing and community development programs suffer from inherent administrative problems. One of the most prevalent of these is the inability to attract and keep competent staff. If small rural towns are to benefit from a high level of competence in housing and community development programs, it is necessary to create regional agencies which will administer programs of sufficient size to attract talented staff and utilize modern management techniques.

Secondly, the agencies that need to be created would have the powers to deal with all housing and community development problems, and be eligible for all relevant federal and state subsidy assistance. This includes not only public housing, but also the interest subsidy programs now serving more moderate income families. It includes also such things as renewal, codes, water and sewer development, and industrial facilities. It has been a mistake in the past to fragment housing and other related community development activities among several types of agencies. It has hurt comprehensive planning and coordination, and artificially separated activities which should be the responsibility of a single community development agency. What we should aim for in rural areas are multi-purpose housing and community development agencies able to undertake a wide range of services and programs.

The federal role in encouraging the creation of these rural housing and community development agencies is an important one. The federal government has in the past successfully encouraged the creation of numerous rural regional planning and economic develop-

ment organizations by making available technical assistance and funds for initial operating expenses. We would urge that any future housing legislation also include provisions for such financial and technical assistance to small rural towns which wish to join in the creation of a multi-purpose regional housing and development agency.

We also ask that the language in existing law which prohibits public agencies from sponsoring interest subsidy programs be removed, thereby allowing rural public agencies to develop really comprehensive housing programs. However, only a significant incentive is likely to bring about the formation of the appropriate regional housing and development agencies. We believe that the potentially most effective incentive for the formation of regional development agencies in non-metropolitan areas would be to grant such bodies a formula entitlement share of the community development funds proposed in pending block grant legislation, just as an entitlement is provided for cities and urban counties in metropolitan areas.

Presumably, the rationale for granting entitlement to cities and urban counties in metropolitan areas is that they are deemed to have public agencies of sufficient capabilities to use the federal aids effectively. Rural areas should be given the same opportunity. If rural counties and small towns can cooperatively create functional-sized and properly staffed rural agencies, they too should be given entitlement status. Anything else would be plain discrimination. Entitlement status would be a compelling incentive, we believe, since under this year's community development bill, S.1744, governments in non-metropolitan areas would have to compete against all other non-metropolitan governments in the country for a portion of the non-metropolitan share of community

development funds. Entitlement would be a vastly preferable situation. It also would surely lead some states to work with rural localities in forming appropriate regional rural development agencies to achieve entitlement status.

It is probably not possible now for the federal government to dictate the specific form a national system of broad-area rural development agencies should take. There may always be too many variations among states in size, population density, configuration, attitudes towards governmental agencies, existing public structures and laws for new legislation to attempt a national blueprint. However, federal legislation can provide incentives for the formation of local public agencies which possess the powers, relationships and general charteristics of the type of rural development agency that is necessary. In this manner, if the incentives are effective, better public administration and public results can be brought about in rural areas and significant progress made in development of subsidized housing and related community facilities. If such improvement is not encouraged, rural areas will continue to fall further behind the cities and the suburbs in meeting their housing and community development needs.

Housing Subsidy Programs

Institutions, of course, are only one part of a housing delivery system, and one part of the problem. We must also consider the subsidy programs. Before doing so, however, let me point out that the Housing Assistance Council, as an OEO funded organization, is interested primarily in the housing conditions of the poorest people--poverty level people.

We are all aware now that the interest subsidy programs that have been in existence since 1968 do not serve the poor, except occasionally in low cost areas, or when additional subsidies such as self-help or manpower have been added. Statistics made available by the Farmers Home Administration show that in fiscal 1972, only 11% of all interest credit Section 502 loans for homeownership went to families with annual incomes under $4,000, which is slightly below the poverty level for a non-farm family of four. The average unadjusted income for families receiving 502 loans in fiscal 1972 was $6,502. Clearly, with such a small portion of loans going to poor or near poor families, the 502 program cannot be considered to be a low-income housing program. Nor can the program be considered to be meeting the most desperate need for rural housing when we realize that the Census Bureau has recently shown us that fully 68% of the housing in rural areas which is lacking essential plumbing facilities or is severely overcrowded is occupied by persons and families with unadjusted annual incomes of below $5,000.

The interest credit Section 235 program administered by HUD is similar to the 502 program. However, in the past this has been largely an urban oriented program, and not often do you find a Section 235 project in rural areas and small towns. At any rate, the Section 235 program largely serves the same moderate income families now served by the Section 502 program. In fiscal 1972 the average family income in 235 housing was also over $6,000.

The multifamily Section 236 program, with only an interest subsidy, also cannot serve the poor, though the rent supplement payments attached to a portion of the Section 236 projects do

manage to serve poverty level people. The problem with the Section 236 program, and thus also with rent supplements,is that it is hardly ever found outside of metropolitan areas. The rural counterpart to the 236 program is the Farmers Home Administration Section 515 multifamily program. But this rural interest credit program, besides having never produced more than 4,000 units in a single year, does not have rent supplements attached to it as does the urban 236 program.

It appears then that the specifically rural interest credit programs that exist are not serving the poor, except occasionally, and that rent supplements, the interest credit program that can serve the poor, is not serving rural areas. We at the Housing Assistance Council had to face this fact quite awhile ago, and having done so we have come to the conclusion that the only federal housing program that is now consistently serving poor people and rural areas is the public housing program.

Unfortunately, the public housing program is now experiencing one of the most trying periods in its long history of vacillating fortunes. I would like to take this opportunity to caution the Committee against putting too much weight on the criticisms of the program that are loosely thrown about today. Careful consideration of these criticisms show that they are superficial--of little real substance. For example, we hear talk of alientating high-rise buildings in decaying sections of large cities. Obviously, the design and location of public housing is a matter of policy that can be easily changed if it is causing problems.

We also hear much about the costs of public housing, and how operating subsidies are an open draw on the federal Treasury. We

must remember, though, that there are over one million public housing units, serving families with average incomes of approximately $2,500, and elderly with average incomes of $1,700. Most importantly, it is serving them for only a reasonable portion of their meager incomes. No other housing program has such a burden. Is it surprising then that this one program accounts for a large part of federal housing expenditures? In perspective, the public housing program has done a remarkably effective job with the funds it has had, and considering the other problems it has had to face.

The public housing program is the only federal housing program of its size which provides capital grants and subsequent operating subsidies. It is the position of the Housing Assistance Council that no housing program will serve the poorest people unless it includes both of these subsidy mechanisms. We therefore urge the Committee to expand the public housing program. We also ask that the Committee consider establishing a statutory allocation of public housing units to non-metropolitan areas, preferably in the area of 50% of production. Finally, we ask the Committee to establish as the intent of Congress a policy of providing public housing unit set-asides to encourage the creation of viable rural housing and development agencies where none now exist.

I realize that is is not necessary to defend the public housing program to this Committee against those who would throw the baby out with the bath water. The Committee has often expressed its support of the program in the past, and will continue to do so, I am sure. However, there are several suggested changes in the program which, while not doing away with it entirely, would change it drastically.

These changes should be carefully investigated in terms of their effects on the poor before they are seriously considered.

The first of these suggested changes is the concept of income mix, which would be accomplished by adjusting upwards the income limits for admission to public housing, as well as the continued occupancy limits. While few would argue that income mix is not a worthwhile ideal, we must question if it is a particularly appropriate one in a country where the subsidized housing programs serve less than 10% of those most desperately in need of housing. Until the overall production of subsidized housing units is greatly expanded, or until all programs are required to serve a portion of the poverty level population, income mix in public housing simply means less housing for the poor.

The second suggested change in the public housing program is the establishment of minimum rents. So far we have seen at least four formulas for computing minimum rents in public housing, none of which have been arrived at through a systematic study of the problem. The objective appears to have been merely to pick a number, any number. For example, the 40% of operating costs minimum rent included in this Committee's new housing bill, S. 2182, is clearly discriminatory against those areas where utility costs are very high or against the largest cities where all costs are high and rising rapidly. Also, any flat percentage of operating costs minimum rent will discriminate against those states where welfare grants are very low, unless some agreement can be reached beforehand to somehow standardize welfare grants for shelter throughout the country.

The disappointing thing about the whole problem of minimum rents is that no one, when asked, has been able to supply specific data on how this would effect the tenants of public housing, or non-tenant eligibles. Will it exclude 50,000 families? Or 100,000? Clearly, the approach to minimum rents that now being considered is a shot in the dark, and it should be researched much more thoroughly.

With regard to the interest subsidy programs of the Farmers Home Administration, none would deny that there is a large segment of the population who, while not desperately poor, still cannot afford decent housing without assistance. The programs should continue to help these people. However, I would like to suggest to the Committee several ways in which these programs could be made more responsive to the needs of truly low-income people.

The interest credit Section 502 homeownership program could reach down to serve more low-income people if a portion of the principal on each loan made could be deferred as a second trust, if necessary, and be repaid only after the first part of the loan has been amortized or the homeowners income has risen substantially. We recommend that at least 50% of the principal on the loans should be deferrable. This type of subsidy mechanism has the best features of other combined loan/grant programs, such as the Farmers Home Administration Farm Labor Housing and the HUD Section 312/115 rehabilitation programs, but it also allows for full repayment of the entire loan in the case of upwardly mobile families. We urge the Committee to investigate and create such a program, if only on an experimental basis for the time being.

The Farmers Home Administration Section 515 multifamily program could also be improved considerably. First, it must be made a major rural program. As I have mentioned, no more than 4,000 units have been produced under this program in a single year. If it is to have any real impact on rural housing needs, this production level would have to be increased to at least 40 or 50,000 units per year. In addition, the Section 515 program must be given the same rent supplement benefits now given to the urban Section 236 program if it is going to serve truly low-income families and elderly.

Both of these programs, as well as all other federal housing programs, could also be improved if they were converted over to direct federal loans, rather than relying on private lending institutions or the insured notes of the Farmers Home Administration. Given the limited amount of funds made available for subsidized housing, we should seek the most economical use of these funds. Elmer Staats, Director of the General Accounting Office, in testimony before the Joint Economic Committee earlier this year, pointed out that the interest subsidy commitments outstanding on HUD programs would have eventually cost the federal government 2.5 billion dollars less if they had relied on direct federal financing rather than private lending institutions.

There are several other specific changes in Farmers Home Administration programs which we consider necessary. I would like to mention a few:

1) legislative language should be adopted to allow the initial operating costs of Farmers Home multifamily

projects to be included in the mortgage, as in the HUD multifamily programs. Existing language does nor permit this, causing hardship for many non-profit housing sponsors.

2) broader authority should be given Farmers Home to permit the refinancing of owner-occupied homes when desirable.

3) the rural housing site development program, now limited to Sections 502, 515, 235, and 236 housing, should be broadened to be used in conjunction with any federally or state subsidized housing program.

I would like to submit for the record, along with my testimony, a list of suggested changes in Title V rural housing programs. This list includes specific legislative language.

With regard to the interest subsidy programs of the Department of Housing and Urban Development, I would like to strongly support the provisions in S. 2182 which would give to non-metropolitan areas an annual allocation of housing funds. These are the largest federal housing programs, and more of the units produced under them should go to non-metropolitan areas. This is especially true of rent supplements. However, we should keep in mind that since these programs depend upon private lending institutions, an automatic allocation of funds to non-metropolitan areas will not assure that units will be produced in rural areas or in those non-metropolitan areas most in need of the housing.

The private mortgage credit market in rural areas is much too undependable to assure the effectiveness of any programs that rely on private credit. The Farmers Home Administration has been aware of this for some time now, and it has a loan system which make

intermediary institutions unnecessary. When thinking of the effectiveness of HUD interest subsidy programs in rural areas, we must remember that approximately 50,000 moderate income families per year have been recieving unsubsidized Farmers Home Administration loans over the past few years,and they all had to show that they could not get credit elsewhere.

If the interest credit programs of HUD are to be used in rural areas, it will be necessary to convert them to at least the type of direct loan system used by the Farmers Home Administration.

Conclusion

The President has declared that the problems of the larger cities have passed the crisis state. I wish that I could report to you today that this is also the situation in rural areas. I can not. Instead, in conclusion, I must ask for a new federal commitment to the millions of ill-housed rural Americans who have had decent, safe and sanitary housing promised to them since 1937. We are all aware now that the problems of rural areas eventually become the problems of the cities, as thousands of rural people, particularly the poor, continue to leave their homes in search of a better life. We must try to provide that better life for them where they now live. Part of this is to create better rural housing and community development programs, specifically designed to solve rural problems, and to provide adequate funding for these programs. But, more basically, it will require a firm position that we have let the housing and community development problems of rural areas go neglected long enough, and that they now deserve a higher place on the list of federal priorities.

1973 HOUSING AND URBAN DEVELOPMENT LEGISLATION

FRIDAY, JULY 20, 1973

U.S. SENATE,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:07 a.m., in room 5302, Dirksen Senate Office Building, Senator John Sparkman, chairman of the subcommittee, presiding.

Present: Senators Sparkman, Proxmire, and Stevenson.

The CHAIRMAN. The committee will come to order, please. I think we better get started. I am hopeful some other Senators may come in. It is very difficult though with legislation going on now on the Senate floor.

From time to time we are having rollcalls, all the more reason to get started. Our first witness is Mr. Henry Eschwege, Director of Resources and Economic Division of the General Accounting Office. We are very glad to have you with us and we will be glad to hear from you. I believe you have a prepared statement.

Mr. ESCHEGE. Yes, I do.

The CHAIRMAN. I will make this announcement. I do so for all of you. We print in full in the record statements that are presented to us. We invite the witnesses either to read it, summarize it, discuss it, any way he wants to.

STATEMENT OF HENRY ESCHWEGE, DIRECTOR, RESOURCES AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY CLARENCE P. SQUELLATI, ASSISTANT DIRECTOR AND CLARE K. ROHRER, SUPERVISORY AUDITOR

Mr. ESCHWEGE. Thank you, Mr. Chairman. My statement is only 5 pages long and if it is all right with you I would like to read it.

The CHAIRMAN. Perfectly all right.

Mr. ESCHWEGE. Before I get started I would like to introduce my colleagues. On my right is Mr. Clarence P. Squellati, Assistant Director in the Resources and Economic Development Division.

On my left is Mr. Clare Rohrer, supervisory auditor of our division. These people have been involved in our reviews of HUD programs.

We are here today to testify on Senate bill 2169 introduced by Senator Proxmire on July 13, 1973. This bill calls for the establishment of a national subsidized housing loan fund to provide for the direct

financing of low and moderate income housing programs under sections 235 and 236 of the National Housing Act.

As you know, section 235 authorized a program under which HUD subsidizes a part of the homeowner's mortgage payment. This program was suspended by the administration in January 1973, pending a thorough reevaluation of the program.

Section 235 loans were made by HUD-approved lending institutions at interest rates established by HUD—the most recent rate was 7 percent—and HUD insured that the mortgage would be paid. The homeowner is required to pay at least 20 percent of his adjusted monthly income toward the monthly mortgage payment for principal, interest, taxes, insurance, and mortgage insurance premium.

The balance of the required monthly payments are made by HUD. However, the payments by HUD cannot exceed the differences between the total monthly payments for principal interest, and mortgage insurance premium and that amount which would be required for principal and interest if the mortgage bore interest at a rate of 1 percent.

The section 236 program, which helps lower-income families obtain rental housing, also was suspended in January 1973. Under this program, project owners obtained loans for the construction or rehabilitation of housing from HUD-approved lending institutions at interest rates established by HUD.

The interest rate for section 236 loans has been the same as for section 235 loans. HUD insures the loans and pays, on behalf of project owners, all interest in excess of 1 percent on the loans and the loan insurance premiums.

Because HUD makes these payments, a basic monthly rental for each housing unit is lower than it would be if the project owners received no Federal assistance.

In two separate reports to the Congress—B–171630, December 29, 1972, and January 10, 1973—we commented on an alternative method of financing both programs. We stated that the Government could realize substantial savings if sections 235 and 236 loans were financed directly by the Government rather than by private lenders.

These savings are possible because of the lower annual interest rate at which the Government could borrow money, compared with the interest rates charged in the private mortgage money market. We estimated that savings in the sections 235 and 236 programs could amount to $1 billion and $1.2 billion, respectively.

In computing these estimates, we used the present value method to estimate savings because we believe this is the most appropriate method of estimating long-range costs. Under the present value method, the current values of fund flows over a specific period of time are calculated by use of a discount rate.

At the time we computed these estimates, the interest yield on the most recent issuance of long-term Treasury bonds was 6.5 percent. We used this rate because we believed that it best represented the Government's cost at that time to borrow funds on a long-term basis.

Our estimate also considered:

Federal tax revenues on income to private lenders and to investors in Government securities.

Costs incurred by the Government under the "tandem plan"—a plan under which the Government National Mortgage Association and Federal National Mortgage Association provide joint financial assistance in financing mortgages.

Costs of servicing mortgage loans under Government direct loan program; and

Planned loans of $39.8 billion to be provided under the sections 235 and 236 programs during fiscal years 1973 through 1978. We calculated the amount of these planned loans from information in the President's Second Annual Report on Housing Goals.

We concluded that, if the loans to be made during fiscal years 1973 through 1978 were financed by the Government rather than by private lenders, the present value of savings would amount to approximately $2.2 billion.

The computation is based on HUD's assumption that homeowners under the 235 program would receive assistance payments for 13 years and project owners under the 236 program would receive assistance payments for 20 years. If a discount rate equal to the average market yield on outstanding long-term borrowings had been used in our computation, the savings would have been about double.

Because of this potential interest savings, we recommended that the Congress consider legislation which would permit sections 235 and 236 loans to be financed by the Government rather than by private lenders.

Mr. Chairman, we believe that the bill now being considered by this subcommittee would achieve the objectives we had in mind. We would simply like to make a few comments concerning the bill.

Section 244(b) which is to be added by section 2 of the bill to the National Housing Act, states in part that the aggregate loans made iny any fiscal year shall not exceed the limits on such lending authority established in the annual appropriations act for such fiscal year. This provision is in line with the concern expressed by the Comptroller General on many occasions that the Congress maintain control by making the programs subject to the annual appropriation process.

As you know, however, excluding the receipts and disbursements from the budget totals as provided in section 244(a) would establish an undesirable precedent since the exclusion could with equal logic and justification be applied to other loan programs.

In our opinion, it is impossible to differentiate between this program and other loan programs in the budget. Our position is consistent with the conclusion of the President's Commission on Budget Concepts of October 1967, that loan programs operated by Federal entities should be included in the budget on a net lending basis. That is to say, the budget totals include the difference between loan outlays or disbursement on one side, and loan reimbursements or repayments on the other side. This budget policy has been in existence for many years.

It was in effect long before the report on the President's Commission on Budget Concepts and the adoption of the unified budget.

The President's Commission on Budget Concepts was a bipartisan group. It was chaired by Mr. David Kennedy, who was later appointed Secretary of the Treasury by President Nixon. The Commis-

sion included the chairman and the ranking minority members of the House and Senate Appropriations Committees.

The Comptroller General was a member of the Commission. Mr. Robert Mayo, later Director of the Bureau of the Budget, was its staff director.

The Commission's report was unanimous and its recommendations were adopted by President Johnson and later President Nixon.

Section 244(e), which is to be added by section 2 of the bill to the National Housing Act, provides that, to the maximum extent practicable, the Secretary shall use the services and facilities of the private mortgage industry in servicing mortgage loans.

The bill is not clear whether the cost of these and other administrative expenses are to be funded from the appropriations to be authorized for the fund or from other sources.

This concludes my prepared statement, Mr. Chairman. We shall be pleased to respond to any questions you have.

The CHAIRMAN. Thank you very much. I like your recommendation.

Of course, you know that we have had in the past different direct loan programs.

Mr. ESCHWEGE. Yes, sir.

The CHAIRMAN. Practically every one of which, if not every one, was changed to the present, or something similar to the present plan. This was done, as I understand it, because of the impact of the direct loan upon the budget.

I agree with you, we could save money by following the direct loan path. And I, personally, appreciate your presentation on that basis. I think it makes sense. I am not sure everyone would agree with me.

Mr. ESCHWEGE. I think it is a matter of policy for the Congress to decide whether they want to go this route.

The CHAIRMAN. If Senator Proxmire had been here, he had some questions that he wanted to ask—well, let John Alden speak for himself.

[Senator Proxmire enters hearing room.]

The CHAIRMAN. I was just about to present some of your questions.

Senator PROXMIRE. Oh, I appreciate it, Mr. Chairman, very much.

The CHAIRMAN. I may say, if you have not read his statement, that he completely endorses your bill.

Senator PROXMIRE. Maybe I should just keep my mouth shut. I have everything to lose and nothing to gain by questioning. But let me ask——

The CHAIRMAN. I should have said that he endorses what I consider to be the best part of it.

Senator PROXMIRE. Well, I think there are other parts of it I understand you knocked out. How much would the saving on direct finance—use the average rate on all outstanding Treasury obligations, rather than the rate on long term obligations?

Mr. ESCHWEGE. As you know, we did figure the savings on the yield of a recent issue of long term Treasury bonds, but we agree that you could also figure it on the current average market yield on obligations of comparable maturities. We have not actually computed it, but we agree with you there that it would be about double what we had com-

puted. So it would be in the neighborhood of $4 to $5 billion on sections 235 and 236 housing.

Senator PROXMIRE. It would be between $4 and $5 billion.

Mr. ESCHWEGE. Yes, sir.

Senator PROXMIRE. Is direct Treasury financing any more inflationary than private financing with a Federal interest rate subsidy?

Mr. ESCHWEGE. We don't see that it would be because the funds would still come from the private sector, either through the banks in the one case, or through borrowing by the Treasury from the private sector.

Mr. PROXMIRE. In your statement, I understand you to say that my bill—and I quote—would achieve the objectives that GAO had in mind, we had in mind. In other words, so far as the objective is concerned, you think the bill carries that out?

Mr. ESCHWEGE. That is right.

Senator PROXMIRE. Mr. Eschwege, I appreciate the general support the GAO gives the bill, but there is one issue we should face and face squarely. If we do as you say and include in the budget the difference between receipts and disbursements under the bill, the bill will never be used by the Government. The Budget Bureau will oppose it as they have every measure of this kind in the past. What the budget does is not charge off in the first year the total cost of the loan. No private business does that for housing. They make a loan for, say, $25,000, and, in turn, they get an asset, blue chip asset. That asset is secured by a mortgage. There is land to back it up. There is a dwelling unit to back it up. In addition, the amount is paid back and interest is paid on it.

That is the way I think that the Budget Bureau should treat housing expenditures, like private business does, instead of writing it all off in the first year. And by doing this, because all of us are conditioned, including the people in the Budget Bureau and Congress, all of us are conditioned by our experience in our own financing, our own mortgages, and our own loans, we automatically assume that when the budget reports that making a loan is an expenditure, that somehow it is. It is not.

That is why my bill provides that the Congress would appropriate the amount of the subsidy as it does now for sections 235 and 236. It also provides the number of units that would have to be authorized and that the Appropriations Committee would limit expenditures as they do now for sections 235 and 236.

The fundamental difference is that under my bill, the funds would be borrowed at 1½ to 2 percentage points lower than the private market and would create a savings of $4 to $5 billion. But if we do what you say and say the aggregate loan should be a charge on the budget in the early years of the program, then the charge against the budget would be so massive as to defeat the purpose of my bill in your proposal.

So aren't you trying to have it both ways?

Obviously, the Treasury and Budget Bureau will never go for your proposal, as they have refused to do this in the past, and because of that, the American people will have to pay billions in excessive amounts to subsidize housing for low-income groups.

Mr. ESCHWEGE. Senator Proxmire, I think you put your finger on it. There is a difference of opinion right here. And we are, in effect, restating what the President's Commission on Budget Concepts came up with when it developed the concept of the integrated or unified budget. And in that case, the Presidents, both President Johnson and President Nixon, endorsed this concept, which would provide for showing the net lending basis of these programs, both the disbursements of the funds, as well as the recovery of the funds through mortgage repayments.

And I can only restate some of the reasons this Commission stated for going this route: that they felt——

Senator PROXMIRE. I understand what they felt. But my question is why do you have to support their position when their position is one that would just negate the whole purpose of this? It would mean we wouldn't make the saving of $4 to $5 billion. It means we would continue this myth that when we loan money, it is an expenditure, when it is not an expenditure. It is an investment.

Mr. ESCHWEGE. Senator, if I might say just two things: The Comptroller General was a member of the Commission, and he endorsed this particular concept, and still endorses it today.

Senator PROXMIRE. What concept does he endorse?

Mr. ESCHWEGE. To show the direct loans in the calculation of surpluses or deficits in the budget.

One reason advanced was that you also have grants which could go for capital expenditures, and I don't think anyone at this time would advocate that grants should be taken out of the budget.

Senator PROXMIRE. No, no. Certainly not.

Mr. ESCHWEGE. Grants to——

Senator PROXMIRE. That is my whole point. You see, as long as we are going to treat loans as expenditures, housing is going to be crippled. It is going to be—you are going to be restrained. It is going to be one of the first things that is going to be hit, with any administration. The way to make a massive cut in the budget is to cut lending. That is also a big item. You cut that and your budget looks good. But it is terribly unfair to the housing program, it is unsettling to the economy in the long run, it is inefficient and wasteful.

Mr. ESCHWEGE. We recognize that there would be a substantial additional outlay in the early years after we put this program on the direct loan basis. However, as repayments are made, as you know, the outlays would become less and less over a period of time. And, therefore, the impact on the budget would be felt more significantly in the first few years and less so in later years.

Senator PROXMIRE. Do you agree with me, am I right or am I wrong in my political judgment that if we do it the way you suggest, that it would just have no effect?

Mr. ESCHWEGE. I think I would have to agree with you that it would be much more difficult to get a bill through with this sort of a stipulation in there.

Senator PROXMIRE. The question, as I understand it, is not whether we can get the bill through. The question is if we get the bill through with your recommendation, whether in the future, we will have housing programs whenever any administration wants to hold down the budget, and make the budget look good.

My argument is that you won't have it without the same problem that we have had with housing for the last 20 years.

Mr. ESCHWEGE. As you know, Senator, there are other direct loan programs which are handled the way that the Budget Commission has advocated. And if you were to change the method of handling this program, you would have sort of an inconsistent treatment.

Senator PROXMIRE. The other programs are relatively small, aren't they?

Mr. ESCHWEGE. Well, I don't know their current status, but there used to be sizable ones in the Farmers Home Administration, Small Business Administration, and the Veterans' Administration.

The Budget Commission, back in 1967, talked about $30 billion worth of programs.

Senator PROXMIRE. You already agree to the precedent, when we make loans to help out farmers, it affects both Democratic liberals and Republican conservatives alike, great enthusiasm, we are all for doing that kind of thing, we exempt them from the budget.

But when it comes to housing, we don't do it. They are included.

Mr. ESCHWEGE. Now, there is reason for not showing some of the loans which are the so-called soft loans that AID makes and the Commodity Credit Corporation's nonrecourse loans that may not get repaid.

Senator PROXMIRE. All right, sir. Well, I am very disappointed, as you can tell from my questioning.

I have great respect and admiration for the GAO, and I hoped that we had something. Here is one place we could save $4 or $5 billion in the housing area, help housing greatly. It was just so logical and sensible, but somehow we can't get away from this archaic, ridiculous notion that when we invest money in housing, it is an expenditure, as it is when we make a grant or pay a salary. We all know it is not. If I go out today or you go out today and take $30,000 and put it into a loan to somebody that wants a mortgage, you don't consider that an expenditure; you consider it an investment.

When the Government does it, it is an expenditure, and that paralyzes our housing investment.

Senator SPARKMAN. Senator Stevenson?

Senator STEVENSON. Thank you, Mr. Chairman.

It seems one of the problems with both subsidized and unsubsidized housing programs is the failure to inspect. FHA does not inspect; when it does, it does so negligently, in some cases fraudulently. And lenders have no incentive to police these loans because they have no risk.

How do you feel about placing some risk on the lenders as an incentive to your policing of the loans? I don't know what form that risk would take. Maybe a requirement that they come up with a percentage of the risk; the loan, instead of being 100 percent, might be 90 percent guaranteed.

Do you think that might be one way for overcoming some of the existing problems we face?

Mr. ESCHWEGE. I think this is a very valid point. I think there should be some risk placed on the lenders. Short of that, at least, there should be a tightening up on the part of FHA to make absolutely sure that before the loan is placed, that all the requirements have been observed by the lenders.

We have these problems in Detroit, as you know, and, as you also mentioned, there have been some indictments as a result of these cases.

Senator STEVENSON. When I was State treasurer, I built a $100 million worth of housing once. The FHA maximum rates weren't competitive. I started what became later a very systematic program by depositing $100 million at competitive interest rates, but with the understanding that the banks would, in turn, make the money available for the construction of this housing.

Banks did so. They made nothing, or just a nominal profit, but on dollars that would have otherwise been unavailable.

As State treasurer, I had on an average about $1 billion to invest, short and long.

There are 50 States, many local treasurers; there is also the Treasury of the United States. I was only one treasurer.

As you know, the United States does not earn interest on investment of the funds in the tax and loan accounts.

Have you or GAO given any thought to use of these public funds for the public—what would you want to call it—national subsidized housing loan fund, development banks. They could be set up to become depositories for treasuries. They could then bank deposits of funds which could be made available for public needs, such as housing as well as other needs. Housing, in my case, was just a start. We went into a lot of other public needs that could be served by private credit at the start.

Have you ever thought about that concept?

Mr. ESCHWEGE. Are we talking about Federal funds made available to the States.

Senator STEVENSON. No, not available to the States. A depository which could use this Federal liquidity, perhaps also State and local liquidity. I can't remember the figures now.

I remember I did once add up the average balance available from State, local, and Federal treasuries. And it was an astronomical sum which, to a very large extent, is producing no benefits for its owners, the public. Interest, to some extent, on a longer term, but that is money which could be used for the public, as in that case I cited to you, where in addition to earning the interest, the money was channeled through the banks to a reasonable public need, housing in that case; low-income rental.

I don't know how you would do it at the Federal level. One thought is banks, if the banks would use this as one source of liquidity, might issue bonds, then make credit available on reasonable terms for these identifiable public needs, for example, for low-income housing.

With the depositories as a potential source, you might end up with as much as $50, $60 billion worth of capital.

Mr. ESCHWEGE. Mr. Rohrer might want to comment.

Mr. ROHRER. I think the States of California and New York are doing this on a small scale.

Senator STEVENSON. Illinois was the first.

Mr. ROHRER. I am sorry.

Senator STEVENSON. That was the model. I think a few others are moving tentatively in this direction but not so far as I know in the creation of a depository. Channeling through the banks is done to a very limited extent.

Mr. ESCHWEGE. Well, it is certainly an interesting idea.

As to your original question, we have not really looked into it, but we will certainly want to consider it and see what, if anything, we can contribute in this area.

Senator STEVENSON. This is something that you would be prepared to give some more thought to——

Mr. ESCHWEGE. Yes.

Senator STEVENSON [continuing]. New concepts.

Mr. ESCHWEGE. Yes.

Senator STEVENSON. Just based on my own experience, it would be worth looking into it. It is no longer theoretical. It has been done.

Mr. ESCHWEGE. All right.

Are you studying now the 701 program?

Mr. ESCHWEGE. Yes, we are looking at the 701 program. We are in the initial stages of it.

Senator STEVENSON. Do you have any idea when that study will be complete or have any conclusions at this point?

Mr. SQUELLATI. Senator, we initiated this survey approximately 2½ months ago, and we are still in the very early stage of the survey, and looking at approximately five different areas concerning the administration of this program by HUD.

We have no projection as to what will be the final outcome or results of this survey, until we have spent a little bit more time in making a more thorough evaluation of exactly the way that HUD administers this particular program.

So, at this point in time, it is a little bit too premature to make any comments as to what the ultimate results of this survey will produce.

Senator STEVENSON. I don't have any more questions, Mr. Chairman. Thank you very much.

The CHAIRMAN. Well, thank you very much.

Thank you, Mr. Eschwege. You have given us some good points to consider.

Mr. ESCHWEGE. Thank you very much.

The CHAIRMAN. The next witness is Mr. Marshall Kaplan, senior vice president of the Raymond Nasher Co., of Dallas, Tex.

Mr. Kaplan is accompanied by Ms. Antonia Chayes. We would be very glad to hear from both of you.

STATEMENT OF MARSHALL KAPLAN, SENIOR VICE PRESIDENT RAYMOND NASHER CO., DALLAS, TEX.; ACCOMPANIED BY MS. ANTONIA CHAYES

Mr. KAPLAN. Thank you, Senator.

I think instead of reading my testimony, and the same goes, I think, for Ms. Chayes, we both would like to paraphrase and summarize, hopefully to therefore induce questioning on the key items of 1743 and 1744 that disturb and excite both of us.

I would like to begin first by saying that I assume I am here because I have just completed several evaluations of Federal categorical programs, including the model cities effort, and I have recently chaired a HUD task force on simplification and consolidation which was a principle in the firm of Marshall Kaplan, Gans & Kahn in San Francisco. So, with that pedigree, which I hope does at least permit me to offer some insight into how the Federal Establishment administers

Federal programs and also the relevance of the model cities effort particularly to 1743 and 1744, I would like to begin.

I think what disturbs me now at this point in time, as I read 1743 and 1744, is that there is no present conceptual framework as to how these two bills or whatever compromise emerges does fit in with revenue sharing, which has already passed and whatever residual category programs remain and whatever community acts emerge out of HEW, DOL, or other Federal agencies. I would like to offer one for consideration, based again on experience in evaluating other Federal programs and how cities expend their own funds.

I would like to propose that general revenue sharing, as it is, remain reasonably free of restrictions and that cities use such funds as they see fit, in effect, it be permitted to be used by cities and municipalities as they see fit. In effect, they will probably do as they are now doing, use it to reduce the local property tax burden and offer specific services, or for salaries, but I would, however, urge upon you that you consider the opportunity for the first time to attach those type of general performance criteria onto special revenue sharing or block grants, or whatever you call it, better communities act, to permit the cities for the first time to implement a program that can remove some of the problems that have been this Nation's, I think, real major problems for many, many years, that is the problems of poverty, the problems of deterioration in center cities. I think the combination of revenue sharing, which is free of restrictions, will permit cities for the first time politically to allocate funds if the right performance criteria are written into special revenue sharing with special revenue sharing, which I do not think they are at the present time, to offer a chance to meet some of the problems we have tried to resolve over the past 10 years but have not.

I would also say the same for any amendments and I think there have to be statutory amendments for any residual programs that remain after we pass the act or a version of it and general revenue sharing.

On to some specifics. I find that the findings and purposes of both 1743 and 1744 are short of what I think is really needed. I think in 1743 there are no, in effect, findings and purposes apart from a general critique of how the categorical program system has really behaved in the past.

Conservatively, in 1744, there is a comprehensive list, a menu, and therefore, I think what we will be left with, if either bill passes intact is no set of national purposes that would, in effect, lead to an allocation of Federal funds that will be anything other than regressive. And that disturbs me from my analysis of Federal programs in the past and the behavior patterns of cities of, I think a majority of chief executives would welcome the shelter of general performance criteria. I want to talk about that in a minute because I don't think the insertion of performance criteria, you do have to have, lead to all the problems we now have in the categorical program system, so I don't think that argument is sound. But I would urge upon you to consider insertion of performance criteria that are tight, that would, in effect, divert funds in the new Better Communities Act or a version of it to needed national priorities which are clear cut and oriented to specific national purposes.

In terms of the issue before you called applications or paper submittles or whether or not you should have application type of system,

here is where I think 1743 at least in part is superior to 1744, our study of the application type of routing systems, the paper submittles, even as home rule oriented a general program as the Model Cities effort, leads me to suspect that application means onerous Federal review, that it means Federal restriction, that application means a skewing of local funds to needs that are not consistent with national purposes, but needs that are consistent within the Federal staff.

I would opt for distribution of funds as a limited right, at least the first year, then I would subject cities or municipalities as they go for their second year of funds to a postaudit.

I would insert in the present bill which emerges a clear-cut set of national purposes which I think, based on the model cities experiences and other experiences with other Federal programs, can be defined.

I would also insert that, in effect, the second year funding is dependent on the consistency with locally defined—that cities would have to set, when they come in with their initial application, but this would not be reviewed with the Federal Government.

Third and most important, I would insert in your bill the requirement that the chief executive go out in front, be involved and administer the funds and that there be legitimate resident involvement. My colleagues will offer some comments on that as soon as I am through.

But I think in effect what I am suggesting is that the initial application be a matter of limited right. But there would be a postaudit and that would reflect the three sets of objectives or performance criteria I mentioned just now.

Now, with a postaudit, I think the present bill would have to be amended, either 1743 or 44, to include incentive funding for high performers and in effect, a deescalation of funds for poor performances, particularly, if they are purposeful and not any result of factors beyond local control.

I agree with Senator Sparkman in his opening comments when he introduced the bill that you would need a computer to understand which of the two entitlement formulas has merit.

However, I was involved somewhat in a peripheral way last year when the first bill came up before you in advising or at least commenting on the allocation formula. It is my impression and it is only an impression or instinct that the level of funding in order if you retain the hold harmless clause as presently existing has to be somewhere over $3 billion to really cover cleanly the hold harmless cities as well as to meet all the other purposes of the present two bills, if you include the model cities program in those bills.

I have a problem, however, with the hold harmless clauses in concept. I would like to review that problem presently. I know there is a legitimate political argument on the hold harmless issue. I also know there has been a capacity argument mentioned that in effect, we cannot afford, if we do, you know, draw off Federal fundings or provide entitlement lower than existing programs that there will be a capacity type of problem.

I would suggest that there is a very tenuous threat between existing categorical program funding and the level of that funding, and in effect, the capacity of local government. In fact, if you accept the critique of categorical programs and the fact that they are fragmented,

you could make the argument that, in effect, those cities that have more categorical programs at the present time have less capacity. I guess all I am saying is that the hold harmless clause is not necessarily nor should be tied by you to the capacity argument. Similarly, given the fact that "hold harmless" favors the "haves" against the "have nots," I would question its conceptual basis.

I would prefer ultimately a formula which would grant cities enough funds to complete and conclude successfully their present programs and the commitments. But I would not necessarily hold in the present bills a hold-harmless clause in perpetuity. This is where I tend to favor the clause that is in 1743. I would question, however, in 1743, other elements of the formula. For example, I think the issue of urban counties inclusion ought to be debated by you, as I am sure it will.

There are very few urban counties in the country that have a broad array of urban functions or are even concerned with the types of urban problems that you have in your statement of purposes and in the law of both 1743 and 1744.

I would propose that if urban counties are seen fit to be funded that we give special attention to them in a separate bill or that they be funded out of secretarial discretionary funds based on their promises to, in effect, attend to urban problems. I think the similar, in terms of entitlement, I already mentioned the hold-harmless clauses in that, in effect, it penalizes the have-nots in favor of the haves in perpetuity. I do not really understand why, if you receive an extra credit or you wait the term, why there isn't a formula in the bill which would mandate that the cities allocate at least an extra percentage of their funds to poverty-related problems. In other words, if they receive a credit, as they should, for the amount of poverty in their communities as they do under both 1743 and 1744, then I would suggest that they ought to be asked to mandate a higher proportion of the funds, whether that is 75 percent or 70 percent or 50 percent is a matter that isn't at issue between us, but there should be a sum of money extra, in effect, mandated or allocated to solve the problems, I think, of poverty in a community development framework.

The last thing on the formula that I would like to talk about is whether or not you should go for two grants under contract or regular entitlements. Again, I favor the concept of permitting cities to receive these funds under limited rights. I think a 2-year grant contract is not sufficient for them to plan ahead and allocate their funds efficiently. So here again, I would swing back to the formula initially in 1743, but with a postaudit clause. Let me comment in conclusion about two or three other real issues. That is, should there be a local share. The present share provision in 1744 has cities allocating 10 percent as their local share and 1743, there is 100-percent funding. I think, based on my experience in evaluating both the model cities program and numerous other Federal programs, I think the local contribution argument rests on a series of mythology at the present time. That, in effect, there is no direct tie between assumption of city responsibility and a minimal local share as we have in 1744. I fear that if that clause remains, what again we will be adding to is that bureaucracy of Federal and local government in terms of both audit and—because the local share can be made up through either cash, land, or services, and there isn't

a city in the country not smart enough to consult help perhaps to find a way out of the 10-percent share.

I depart from my academic friends and perhaps professional friends. I do not think the present bills ought to provide a direct pipeline for either States or regional area governments. I think that we have long talked about again the mythology of regional government. I think they are important, I think they should be allowed to or encouraged to develop.

However, I think where we have gone wrong is that we haven't forced the States or the cities themselves to put up or shut up, and I think that, in effect, what we ought to do is to provide incentive funding to States and to cities above their entitlements, if they want to participate in metropolitan government or metropolitan type of organization. I would not at the present time fund them directly so that, in effect, I would provide for funding of metropolitan groups under a discretionary amount provided the secretary and similarly I would provide for city participation or induce city participation in such organizations through extra incentive funding over and above their own types of entitlements.

On the State issue, I would force the secretary to prescribe criteria for State participation. I would not blanket States initially with certain funding, very few States are in a position at the present time to assist cities in solving their problems. They can and should be encouraged to do so, but their funding should be premised, in effect, on their willingness to assume certain type of real burdens.

On the issue of 701 earmarking for a planning and evaluation or management, I think it is fair to say, based on, again, our own evaluation and others, that the 701 program presently is encrusted with so many administrative bureaucratic guidelines, so many limiting functions, and is so oriented to the consulting industry, which, as a consultant, I think needs to go through its own set of reforms, that the capacity argument that, in effect, the 701 program should be maintained, I don't think is really relevant. I would propose instead that in this bill or in a supplementary bill that there be funds set aside for a broader planning grant program that would, in effect, be allocated directly to chief executives, that would be, in effect, personalized if used by consultants, but would be used primarily to hire staff and build the planning and management capacity that I think we so richly needed in model cities but did not have.

I would say the same thing that in effect evaluation has received short shrift both in 1743 and 1744. And I would hope some provisions for earmarking of the evaluation funds could be added to the present bills so that in effect we would be assured of a national evaluation program that makes some sense. I do thank you for your time, Senator, and I would like Ms. Chayes then to offer her comments.

Ms. CHAYES. Many of the recommendations made by Mr. Kaplan are those that emerged from a year-long subcommittee of the National Academy of Sciences Advisory Committee to HUD, of which I was chairman.

I want to stress some of our analyses in that committee and to mention one recommendation for change in what I expect will be a compromise bill that he has not discussed.

First of all, I think I am in agreement with Mr. Kaplan that the entitlement notion of 1743 is the preferable notion.

On the other hand, the administration bill contains no statement of substantive purpose or objectives. In fact, there seems to be a deliberate attempt to strip away the legislative findings relative to the problems of poverty and the problems of the city. While I would support the entitlement notion, I would find the failure to deal with national goals unsatisfactory. And I think it is going to be difficult, but not impossible, to devise a way in which certain broad important national goals are expressed in this legislation, but at the same time, the application process of 1744 not be used, for all the arguments set forth by Mr. Kaplan.

I think our experience with model cities really has shown, as well as other categorical programs, that extensive Federal control is not really helpful to the achievement of national goals. Therefore, our recommendation, as Mr. Kaplan has indicated throughout his testimony, is that a tight and rather specific—more specific than in 1744—statement of purpose be developed, and expenditure of funds be restricted to these, to the purpose expressed.

So that the statement of purpose is not hortatory, it would essentially restrict the expenditure of funds—whether it turns out that 75 percent or a lesser percentage of funds would be available for the stated purpose again doesn't really mater, so long as these funds are tied to the purposes.

I think there is a further way in which the enforcement of further national goals can be achieved. It seems to me that there could be a provision similar to the provision of the National Transportation Act in which Congress sets aside somewhere between 1 and 2 percent for monitoring and evaluation in terms of the criteria and priorities set out in the legislation.

The evaluation studies should be conducted independently and reports given to Congress as well as to HUD. This is parallel to section 307(c) of the Federal Highway Act. It seems to me that this has the virtue of testing out the criteria against the actual programs. The gap between rhetoric and performance has been far too wide. This is quite a different pattern that we are suggesting than either the pattern of 1743 or 44, but I want to reiterate that I think the entitlement route at this point is the preferable route. However, the allocation formula, even with the double counting of poverty, isn't adequate, for the reason already stated, that there is no assurance that those funds will be spent for the problems that raise the entitlement.

Now, I find in addition to these problems already covered by Mr. Kaplan that there is an inadequacy on the issue of community participation, essentially in both of the bills and I would like to recommend a substitute that has been recommended in our subcommittee report of the National Academy of Sciences.

We will make this report as soon as it is typed and finished available to the committee. The bills, I think, embody very different notions of citizen participation. 1743, section 5, is a consultation process that is quite minimal, and I think that 1744, on the other hand, is—seems to be an adaptation of the model cities formula.

Neither of them really worked out. Simple consultation really is a way of turning back the clock, I think, and that is not going to meet anybody's expectations. And 1744, I think, though preferable, the kind of mechanisms that have developed first in OEO and then model

cities have been not wholly satisfactory, either. Such mechanisms have been ineffective in part because they have been fragmented across so many efforts, time consuming and essentially blunt instruments; in many cases they haven't even spoken for the poor, the people they were designed to represent.

On the whole, I would prefer the approach of the Senate bill to the better communities bill, but it also employs an amount of HUD control and possible litigation as we have had in model cities, that isn't in tune with the entitlement approach that I believe is so important to preserve.

What we would suggest instead is a statutory requirement that negotiations process take place between the mayor or local chief executive and a fair representation of all significantly affected groups. The ultimate decision would remain in the politically elected leader. Only what would be required is the written assurance that the process will occur and a list of groups or parties to be included. That is the only precondition of receipt of Federal funds in order to minimize delay. We would anticipate that the mayoral negotiations process would result in the development by a city of a plan for expenditure of special revenue sharing funds. We don't see this as a lengthy paper product, for the negotiations would have to be limited, and the plan ought to be available to HUD, but it doesn't have to be approved by HUD.

The only precondition is that the locality has given assurance that all affected interests have had a voice in formulating the plan. Now, obviously, one obstacle is who is included and who is excluded. Our recommendation is that initially, the mayor or local chief executives make that decision, but there would be a limited right of appeal to HUD, to a special hearing officer in the appropriate HUD assistant secretary.

The examiner's decisions, I have spelled out this in my written testimony, would be rendered within a brief period, let's say, 30 days, and would be final, not the subject of further review, not subject to judicial review, and this would take care of any complaint of arbitrary exclusion of parties.

There would be hearings, there would be a record, so that various community viewpoints would be heard, and it seems to me that the very process which we have seen experimentally done in Hartford, for example, would put the kinds of pressure for allocation of funds that we feel are necessary, because though theoretically, the democratic election process is the most democratic, it is by no means perfect and there are groups that are seriously excluded. This recommendation, as I say, is spelled out in the testimony. It is spelled out in the National Academy of Sciences report, and we feel that it is both a compromise and a step forward beyond community participation mechanisms which have been unsatisfactory. Beyond that, we would be delighted to answer any questions.

Senator STEVENSON. Thank you, Ms. Chayes and Mr. Kaplan.

The public participation provisions of 1744 originated with a proposal that I made in the last session. The arguments against that proposal made then and since are essentially that the public receives its participation through the electoral process. How would you respond to that argument?

Ms. CHAYES. Well, as I say, I think that is theoretically true, and in actuality, definitely imperfect.

I think that the community participation mechanisms that have been developed from OEO onward, have tried to make more perfect the process of inclusion of minority groups and those who were really not included in the electoral process, whose voice was not fully heard. I think those mechanisms have proven also to be far from perfect, and I think that one has to now push forward to a different measurement.

Mr. KAPLAN. I think, Senator, the only element of the report that I would demur from Ms. Chayes. I am concerned with citizen participation, but I think that the public examiner group would lead to a complicated bureaucratic monstrosity. I would prefer to rest citizen involvement the postaudit provisions in effect and penalty clauses that I had suggested as amendments to either 1743 or 1744, but I also suggest that in all other aspects, Ms. Chayes and I are very close.

Senator STEVENSON. Should HUD judge the merits of the community's program as distinct from the legality and propriety of expenditures through audit procedures?

Should HUD be able to reject a community's plan if it does not meet, in HUD's opinion, the national objectives?

Mr. KAPLAN. Yes; I think initially, I would not have HUD in that rejection or acceptance role. In other words, I would go along with the concept of limited right, but on the postaudit, I think against the three sets of criteria only, not against the traditional categorical, all of the language, the heavy handbooks that have been created, the 7 pounds of urban renewal handbooks and 6 pounds of C. & P. handbooks, but against a limited set of national performance criteria, a limited set of locally selected targets that the localities would have to select against the statute itself and local performances of the chief executive and involvement of local residents. I think we can create, based on the model cities experience and other categorical programs experience and mistakes, those that come the second and third year, we can devise a monitoring system that would permit the Feds not to become unique of the system but in effect protect the legitimate efforts of the Nation in its urban problems. I think the most—that most chief executives would welcome such a shelter.

Ms. CHAYES. But I think it has to be understood that our judgment is that application process is a failure, and that a different route ought to be tried. It seems to me, though, that a hard job is ahead for the committee in drafting the kind of statement of purpose that will establish the evaluation at the postaudit end, because if the statement of purpose is so loose and so abstract, there is really no way to evaluate what the cities have done, even if you set aside one or two percent for monitoring and evaluation.

So it seems to me that this throws the problem back to the committee, but, on the other hand, if you leave it in the traditional application process, as the Senate bill has done, you are going to have more of the same.

Senator STEVENSON. Who does the evaluation? Should it be done locally?

Mr. KAPLAN. I would suggest that if the HUD people, well, if there is an entitlement and it is of limited right, there are very few tasks that the present officials will have to do, and I would suggest that we

could structure in the area offices of HUD and regional offices hopefully through some consolidation and again one issue that bothers me about both bills is that they do not talk to the structure on the capacity of HUD as an agency itself, but if, in effect, we revise the agency's general functions by implication by not having it review these very onerous applications from thousands of cities, that in effect, we could then devise a legitimate and nondiscretionary, in effect, type of monitoring function which would leave it where it should be, that is, in the hands of those who allocate the funds.

Senator STEVENSON. Neither of you are then suggesting that the localities should be the ones to evaluate their own programs?

Mr. KAPLAN. I would hope they too, sir, would have enough funds to do their own local evaluation. They will be defining their targets hopefully on an annual basis.

I think the state of the art does not permit them to do what the committee suggests in 1744. That is a 3-year timing allocation. What we will end up with is the same thing we had in Model Cities, if you recall it, Part Two would project 5 years ahead, and it ended up stimulating consultant contracts and mythology but no hard data or planning.

I think just that the planning state of the art will not carry cities that far ahead in the wide range of endeavors that the committee and I hope that the cities will cover.

I would hope that the cities would be asked to define one or possibly two types of objectives, so it is almost like the capital improvement program process or capital budgeting process, but now you are involving social concerns, so every year they revise their own targets based on their own evaluation. But the postaudit would depend on the Federal Government and would have carried with it some incentives and disincentives.

Ms. CHAYES. More than that, if funds are not set aside for evaluation, they will not be used for evaluation. That is always the bottom rung of priorities, money for evaluations, unless there is a specific provision in the bills.

It seems, also, there is a discipline in requiring that evaluation and monitoring reports be made to Congress, as well as to HUD, so instead of the kind of anecdotal report for evaluations that are usually given to Congress, Congress can really look and have before it the evaluations of specific programs and know whether the goals have been enforced and whether the objectives have been met.

Tere is really no excuse any more, with the problems we have in the cities, for so much Federal money to be spent and so little to be happening.

Senator STEVENSON. Ms. Chayes, I think it was you who said we should try a new approach. We are now trying the general revenue sharing. Does the experience to date with general revenue sharing leave you with any expectations of what local priorities might be under an unlimited entitlement program such as embodied in 1743?

Ms. CHAYES. It is exactly that that has caused me and other members of the committee to suggest that the funds in any community development or special revenue sharing programs be limited to stated and well-defined purposes. It seems to me that general revenue sharing does serve a purpose. It does give complete local freedom, from swimming

pools to golf courses, or whatever the community wants, or essentially, tax relief.

But if we are concerned about certain kinds of knotty problems, it seems to me that the combination of an entitlement formula, which means true local solution, but limited to specific problems that Congress knows exist in every urban area, is the right route.

So this is why I would suggest 75 percent or something of that sort to the problems involving discrimination, inequality, urban blight. The solutions can be quite imaginative locally.

Senator STEVENSON. A final question to both of you.

You, Mr. Kaplan, referred to relatively simple performance criteria.

Could you elaborate on that expression? Sometimes things described as simple don't end up being very simple.

Mr. KAPLAN. Let me put it in the context of our evaluation of the model cities program, where we looked at all the cities specifically carved out a national sample of about 21 cities. There we clearly found out—and it is almost predictable, too, that where the role of the mayor, chief executive, and the role of the residents was in some sort of parity relationship where the mayor had responsibility but did involve the residents, the priorities in terms of allocation of Federal funds more nearly met city objectives, got underway faster, and the Federal dollar was spent more efficiently.

And so we can define criteria defining the role of the Chief Executive. For example, you can set up evaluative criteria in terms of what role the Chief Executive plays in terms of allocation of Federal funds, and how committed is he? Has he reviewed it? These are all evaluative criteria.

Similiarly, with the involvement of the residents, these are evaluative criteria.

The second level of performance criteria are also relatively, I think, as simple, again.

That is, the cities would state their own targets; in effect, at the end of the year, you would be able to measure city achievement against their own targets, and that is a second level of evaluative criteria, which I think, given the knowledge we now have, which we should use, the Federal Government funds a tremendous amount of evaluative studies and does not use the results.

But now we do know how, in effect, a city is responsible to what they say they are going to do. I think at the end of the first year, you would look at the targets they set at the beginning of the first year.

Then, the final set of performance criteria, which is harder to deal with, the national purpose, which I would suggest we can also initially inventory, at least in terms of the environment, discrimination, job opportunities. And I am convinced, again, after looking at all of the data that we can come up with nondiscretionary, nononerous, nonadministrative criteria, or performance criteria.

And as I suggested to one of the committee staff members, I would be very glad to spend time and volunteer time to come up with those things.

Senator STEVENSON. I take it you two are volunteering. Thank you both for the offer.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

I have enjoyed the testimony of both of you, as far as I have heard it.

I apologize for having to leave. I had a call from the Secretary of HUD and talked to him about some features of housing. I felt I should talk to him, even though it pulled me away from this.

I think you have made some very fine suggestions in there, both of you, that will be helpful to us.

In your statement, you refer to real need. It says, "To thoroughly examine by this committee with respect to real need as opposed to assumed need."

Well, I call your attentiton to the fact that in S. 1744, we use both a formula and past activity to measure need. Do you have any comment?

Mr. KAPLAN. Yes, sir. I think I was talking in this context of the aggregate dollar amount that you have allocated or that the administration and previous Senate bill allocated to the total package, and there having been involved earlier in some of the formula allocation processes, I know, that the basic way the figure was arrived at, somewhere between $2.3 or $2.7 billion, was primarily related to an aggregation of existing programs HUD has in its present inventory.

I would say, based again on the experience of the presnt HUD inventory, particularly model cities, where cities were asked to inventory their own real needs, that while we probably wouldn't have sufficient funds in the Federal budget at present to accommodate those needs, it would do us good to take a fresh look at what the pressing needs of our urban areas are and a fresh look at the total budget. I am convinced it will come up a bit higher than the $2.3 posited in 1743, and probably somewhere over 3 billion at the present time.

I also found it very hard to accept the program experience as a criterion in the allocation to metropolitan areas primarily, again, because it rewards the "haves" against the "have-nots" perpetually.

The CHAIRMAN. I think both of you have given us some very good ideas. I assure you the staff and this Committee will be working with them, because we want to pass out the very best legislation that we can do.

Mr. KAPLAN. Thank you, sir.

The CHAIRMAN. I certainly appreciate your contribution.

[Statements of Mr. Kaplan and Ms. Chayes follow:]

Marshall Kaplan
Testimony, July 20, 1973
Subcommittee on Housing & Urban Affairs
Senate Banking Housing & Urban Affairs
Committee

COMMENTS ON

S.1743 and S.1744

I appreciate the opportunity to testify on S.1743 and S.1744. I assume the invitation for me to do so was premised on my involvement in and/or direction of several recently concluded analyses of the impact of the federal role in urban areas[1] and my experience over the last decade as advisor to several Federal agencies, states and cities.

Hopefully, my comments will reflect my seeming pedigree as an "urbanist". But I must warn you in advance that I shy away from the appellation expert, given the complexity of the urban problems facing this nation. Indeed, only a fool would come before you with certainty; only the idealogue would be able to impart absolute truth about the correct course of action this nation should take in responding to its urban needs.

Because your witness list is long and quite all-inclusive as to coverage, I feel no compulsion to be comprehensive. Rather, I would like to first offer some brief remarks on the construct of federal aid programs in the 70's and, subsequently, some very specific remarks on key aspects of both S.1743 and S.1744.

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[1] As a principal in the firm of Marshall Kaplan, Gans & Kahn of San Francisco, I directed the firm's (1) 5-year continuous study of the Model Cities program; (2) analysis of the impact of A-95; (3) study of inter-agency coordinated mechanisms; etc. I also chaired the HUD Task Force on Simplification and Consolidation; served as advisor to the President's Commission on Model Cities; authored the Academy of Sciences report on urban growth; am now on the ACHUD Committee on planning guideline revisions; and am presently Senior Vice President of the Raymond D. Nasher Company and General Manager of Flower Mound New Town, Ltd.

A. NEW AND OLD INVENTORY - A PROPER MIX AND FRAMEWORK

Criticism of the categorical program system has now become conventional wisdom. The continuous addition of new aid programs during the 60's and early 70's, combined with numerous amendments to existing ones, has resulted in an inventory more noted for its variety than quality; more significant in terms of its size and number than its impact. Further, the continuous efforts of each Agency to define groundrules governing administration of their respective programs have generated conflicting, often onerous review processes and submittal requirements.

Certainly the role of the federal government in the seventies should be different from what it was in the sixties. In this context, the Administration and Congress are to be congratulated for their willingness to recognize and advocate the need for a basic restructuring of federal aid programs. Yet, the desire for reform on the part of both has not generated a clean cut picture of what the varied pieces of new inventory will look like, or how these pieces will all fit together. Instead, rhetoric associated with the "need to rely on cities" or the alternative "need to reform cities" has seemingly substituted for hard thinking concerning the ability of the nation to respond to legitimate national as well as local priorities. As a result, current program reform efforts could well generate a regressive distribution of public funds and policies irrelevant to many of the key social, economic, and environmental problems evident in our urban areas. Equally important, such program reform efforts may well deny the legitimacy of articulated and seemingly agreed upon national priorities with respect to elimination of poverty, discrimination, etc.

Certainly, the advent of revenue sharing and special revenue sharing, combined with the diminuation of categorical programs should not relegate the Federal government to the role of eunuch in the federal system. Indeed, revenue sharing, if thought of as only one element in a coordinated federal aid system, could provide the heretofore missing link in the federal arsenal of tools directed at improving the quality of urban life. That is, availability of revenue sharing funds, free of statutory restrictions, should make it possible for local officials to more easily allocate special revenue sharing monies (Better Communities) and residual categoricals to areas of concern defined in part by national priorities and national performance criteria. To put it bluntly, revenue sharing has and will continue to permit local officials to provide visible and perhaps legitimate rewards to the majority population (property tax, relief, etc.). This fact should, in turn, make it easier for these same local officials to use other federal funds for pressing needs related to the reduction of blight, the prevention of deterioration, and the development of more effective local management and planning capacity (i.e., institutional reform).

If the "balance of payments" does not always sound convincing to one or more groups making up local constituencies, inclusion of specific performance criteria as noted below in either 1743 or 1744, and development of specific Congressional language clarifying the purposes of remaining categorical programs, would provide welcome shelter to local officials and assure an allocation process consistent with the national and long term local interests.

ELEMENTS OF COORDINATED FEDERAL INVENTORY

		Statutory Performance Criteria	Use
1.	General Revenue Sharing	Minimal	General
2.	Special Revenue Sharing	Allocation of funds to meet specific national objectives and priorities	Specific population
3.	Residual Categoricals	Allocation of specific problem areas; R&D efforts; reform incentives	Specific areas of concern

B. SUGGESTED AMENDMENTS - S.1743/S.1744

Acceptance of the above conceptual frame of reference, and a willingness to borrow on the lessons learned from the Model Cities experience (as well as recent administrative efforts to "simplify" and consolidate the present inventory) would, I think, lead this Committee to at least consider the following in its deliberations on S.1743 and S.1744:

1. Findings and Purposes

Neither the statement of findings and purposes in 1743 or 1744 seem to adequately provide recipients with a clear-cut mandate relative to the expenditure of authorized and ultimately appropriated funds. 1743 neglects to define any real parameters relative to local use of federal funds, while 1744 presents such an all-encompassing menu that it ends up with little in the way of Congressional direction concerning national priorities or local performance criteria concerning use of proposed funds. In essence, both statements fail to mandate local attention to specific national priorities with respect to community development. Similarly, both fail to

recognize the probability that without specifics, allocated funds may be used for purposes which divert considerably from national priorities.

Those who argue that reinsertion of defined and clearly limited national purposes would, in effect, result in merely another categorical program fail to observe one of the more meaningful results of the Model Cities Program. Clearly, the statement of purposes in that program, although in retrospect overly complicated and diffuse, generated an expenditure pattern more attentive to the needs of a targeted population than similar patterns recorded for other recent federal aid efforts and programs, including general revenue sharing. As important, interviews with local chief executives conducted during our Model Cities evaluation suggested a willing acceptance on their part of such Congressional direction concerning national priorities. Quite clearly, only the virtuous and politically omnipotent elected official would want to completely remove the ability of federal prescriptions to offer shelter from often shifting, sometimes temporary majorities and minorities angered by City Hall decisions reflecting unpopular but ostensible long term public interest decisions.

I am convinced that language can be developed by staff which narrows the general area of concerns associated with community development, yet avoids the detailed earmarking of funds associated with the present categorical programs and, as implied above, even the Model Cities program.

Such language ought to grant priority emphasis to community development efforts[1] which expand the environmental choices of less than affluent urban dwellers. Indeed, amendments ought to mandate expenditures by recipients of a specific amount of their respective entitlements for such community development efforts; that is, for efforts precisely oriented to expanding the quality of life of the poor[2].

2. Paper Submittals: The Need For an Application

Results from our extended evaluation of the Model Cities Program, as well as our studies of numerous other federal programs illustrate the irrelevancy and negative impact of most paper submission requirements. Localities more often than not view such submissions as obstacles to overcome, rather than capacity building or strategy inducing tools. Conversely, most, if not all, federal agencies neither have the staff capacity nor the understanding of varied local environments to easily meet statutory intent in judging local submittals. Even in such an ostensible "homerule" oriented program as Model Cities, the requirement that the Secretary approve local plans was converted initially into weighty, often obtuse guidelines; irrelevant administrative prescriptions concerning local planning processes (understandable only to PhD students, and clearly out of sorts with the planning state of the arts); and, often tortuous review and amendatory processes. More traditional cate-

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[1] I am assuming that the Committee will consider the relationship of "HUD" special revenue sharing to Administration proposals with respect to consolidating HEW or "software" programs.

[2] In both proposed bills, recipients receive extra rewards for the amount of poor, but both bills do not mandate particular concern with the poor.

gorical programs have (and will continue to) fared worse. Indeed, at times the only beneficiary of continuous Federal concern with paper is the local consultant industry.

I would certainly prefer granting participants an initial "right" to funds as proposed in S.1743. Conversely, however, I would strengthen the Federal role in post auditing resulting expenditures and in varying future levels of funding. To be more specific, I would require that localities submit a brief statement of one- or possibly two-year objectives, targets, and programs. I would not prescribe a national planning process or model for cities to follow. I would initially accept such submittals merely on the certification, by local chief executives, of consistency with statutory objectives. Prior to the receipt by localities of their second year allocation, I would permit federal officials and staff to monitor local performance with respect to several defined criteria. These would include:

a. Consistency with statutory defined national purposes (i.e., elimination of discrimination, protection of environment, allocation of funds for the benefit of targeted populations, etc.);

b. Consistency with locally defined objectives; and

c. Consistency with stated statutory defined criteria related to the involvement of elected local officials and residents in the planning process generating the allocation of federal funds.

With respect to the above, Model Cities offers us insight on how, and at times how not, to structure performance standards. I am convinced that relatively simple performance criteria can be defined in each of the above

areas, which reduce - if not eliminate - federal discretion relative to project content and the precise local expenditure of federal dollars. In the process of developing such criteria the Committee, given Model Cities data, should grant emphasis to the roles played by relevant local participants in resource allocation decisions. Evidence from Model Cities strongly suggests that the program's impact was much more significant in cities where the chief executive was "out in front"; was visibly committed to the program; was willing to provide leadership in coordinating resource allocation; and, was willing to legitimize serious discussions with a variety of relevent resident groups. Certainly, amendments strengthening chief executive responsibility and resident involvement should be part and parcel of any modification of 1743 or 1744, and should join proposed suggestions concerning refinement of national purposes and provision of a specific allocation formulae suggested in my earlier comments.

Insertion of monitorable performance criteria suggests the need to consider reward and penalty mechanisms. Incentives to high performers should be part and parcel of any new legislation. These could come in the form of an earmark of residual categoricals or an extra allotment of appropriated funds above and beyond a base entitlement from monies subject to Secretarial discretion. Poor records, if purposeful, should be met with a gradual reduction of base funding.

3. Entitlements, Hold Harmless and Level of Funding

Access to data relative to program use during the previous 5-year period (as well as access to a computer) would be necessary in order to weigh the specific merits of the different formula proposed in each draft

bill. My own initial instincts (given some involvement in discussions concerning the allocation formula in last year's proposal) are that a figure somewhere over $3 billion during fiscal year '75 would be necessary to clearly (and cleanly) hold cities harmless as well as maintain commitments concerning Model Cities and other programs.

Both formulas (1743 and 1744) should, I think, be thoroughly examined by this committee with respect to real need as opposed to assumed need premised on the mere aggregation of existing categorical programs. I would hope that this re-analysis would also consider possible variations in the final formula, given the revised set of statutory purposes and method of allocation of funds proposed above. Finally, I would hope that your analysis would consider:

a. The wisdom of including urban counties as direct beneficiaries of special revenue sharing:

   - 1743 grants urban counties status as a direct fund recipient. Evaluative data emanating out of Model Cities, as well as studies of other federal programs indicates the relevance of only a handful of urban counties to the present statement of purposes (as well as any proposed revisions) in both drafts. Perhaps the Committee might want to develop a separate program for urban counties if further deliberations suggest it would be in the national interest, or perhaps those few urban counties presently responding to urban problems with urban functions could be funded subsequent to Secretarial review and from discretionary set-asides.

b. The rational for extending "hold harmless":

   - Both 1743 and 1744 include "hold harmless" clauses. 1744 would extend the "hold harmless" principle well beyond the marginal period provided in 1743.

     I realize the political arguments in favor of hold harmless provisions. More important, I understand the need to maintain and

conclude existing commitments as well as insure retention by localities of "capacity" built up as a result of categorical program funding. I have, however, a distinct "conceptual" problem with "hold harmless" for, in effect, it grants priority to "haves" in favor of "have nots". Further, knowing the grant game as I do, I also find the link between administrative capacity and use of federal funds to be in some areas quite tenuous.

Assuming continuation of a politics of scarcity, I would find the hold harmless provisions in 1743 more palatable for, in effect, they meet program commitments without maintaining the principle in perpetuity. However, my ultimate preference would be to combine an increased level of total funding with a specific federal guarantee to provide funds to conclude already initiated projects and a base level of entitlement weighted heavily in favor of indices related to blight and poverty.

c. The criteria used in defining entitlement:

° Without the aid of a computer, it is difficult to determine the precise effect of the criteria used to define local entitlements. Both programs appear to weigh poverty twice[1] in determining basic allocations which I think, as implied earlier, has merit. Criteria related to program experience as included in 1744 disturb me for much the same reason as the "hold harmless" clause (note above paragraph). That is, those that "have" are perpetually rewarded, and those that "have not" are perpetually penalized.

d. The benefits associated with two year grants or regular entitlements:

° As indicated above I am, based on past Federal and city performance with respect to numerous categorical application submittal and application review requirements, prone to favor the provisions of 1743 as opposed to 1744 with respect to initial funding. That is, I would eliminate the need for a local application and subsequent Secretarial review prior to initial funding. I would also, given the negative effect uncertainty has on localities, provide monies to cities as a matter of "limited right"[2] subject to post audit and variable levels of aggregate funding instead of through two year contracts as proposed in 1744.

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[1] While localities are granted more funds if they have more poor people, no provisions in either 1743 or 1744 mandate expenditures for the benefit of the poor. I would, for reasons related to national purposes, insert in the final bill a minimum level of funds which must be allocated for community development objectives related to improving the lives of the disadvantaged.

[2] In earlier pages I proposed a post audit based on defined national objectives, local targets, and performance criteria.

e. The rationale for a local share:

° 1743 and 1744 differ on the issue of a local share; 1744 mandates a 10% local contribution from participating communities, while 1743 provides 100% funding. I realize that conventional wisdom would have it that "putting up dollars" translates into local assumption of responsibility. Yet, there is little evidence in the history of categorical grant programs suggesting a one-to-one relationship between provision of local funds and provision of local interest and involvement. Rather, such idiosyncratic factors as local leadership and resident interest affect local stewardship more than local contributions. Given the relatively small local share required in 1744 (10%) and the alternate ways it can be secured (cash, land, services), I fear that retention of the provision will result in more bureaucracy rather than more responsibility. Because of this I would prefer to eliminate the provision, relying -- at least until the post audit -- on the willingness of responsible local officials to govern effectively and efficiently.

4. Roles of Metropolitan Entities and States

Both 1743 and 1744 are silent on the issue of direct funding for existing Metropolitan planning and development groups. I assume you will be hearing from those who claim that the absence of such funding will cause such groups to wither away or that the absence of such funds will "slow down" or stop the movement toward "rational" metropolitan government. I guess here again I would have to depart from most of my academic friends and perhaps most of my associates involved in efforts to encourage area-wide planning. While not denying the validity of their interests, the marginal involvement (and interest) of Metropolitan entities in Model Cities; the negligible effect of the A95 process; the the marginal impact to date of Metropolitan planning, and the growing competitiveness of constituencies in central city and suburb suggests that the legitimacy of their claims and the ultimate strength of their

institutions must rest on State and/or local willingness to strengthen their functions and sanction their responsibilities, rather than on aggregate federal dollars. I would, instead of including Metropolitan entities directly in the Better Communities pipeline, provide funds to states desiring to create and work with such Metropolitan entities and incentive funds, above base line entitlements, to cities willing to participate in a meaningful, bonafide way in Metropolitan groups.

In a similar vein, I question the validity at this time of moving toward blanket funding of States as provided in 1743. Given the minimal role of most States in Model Cities, and the minimal interest and capacity of all but a relatively few states in the specific community development problems of most urban areas, I would premise funding of states, at least initially, on Secretarial review and approval of State willingness to: (1) create internal capacity to help urban areas resolve problems; (2) use State and other federal funds to meet community development areas of concern; and (3) initiate R&D programs with respect to community development problems. In effect, I would tie the funding of states to the discretion of the Secretary.[1] I would also establish precise criteria consistent with national purposes and local performance criteria for

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[1] Although the issue of funding states may not in reality become a real one, given the fact that hold harmless provisions will limit the level of available funds in the near future, I think it important that the Committee debate how best to make states a responsible participant in efforts to resolve community development problems. As indicated above, blanket funding without major prerequisites as now provided in 1743 is, I think, a mistake at this point in time.

state pass-throughs to metropolitan cities, etc. (Presently no such criteria exists in 1743. In this regard, it is conceivable that states could allocate whatever residual funds are provided them to the same metropolitan cities that receive funds under their own entitlement or hold harmless provisions.).

5. Technical Assistance/Management & Planning

Senator Sparkman's comments accompanying introduction of 1743 and 1744 concerning the need for immediate fresh thinking on the nation's housing problems deserve priority attention by this Committee. In a similar vein, I would hope that the Committee would provide in the community development legislation, which emerges from present deliberations, the framework and means necessary for states and cities to develop local planning and management capacity. I would offer the following observations -- observations again based on analyses of current and past federal planning assistance programs:

a. Presently federal planning assistance programs to cities are fragmented and limited as to focus. Most do not even "pass through" the office of locally elected chief executives, let alone provide him (or her) with funds to hire staff and develop appropriate resource allocation priorities.

b. HUD's primary planning assistance program is the 701 program. It has only a marginal impact on cities; is encrusted with irrelevant administrative criteria concerning use and function; and, is limited as to focus and product.

c. The effort to prescribe a planning model from Washington for cities has been an unmitigated disaster. It did not work in Model Cities and will not work in new legislation. The state of the "planning art" is marginal and cities should be left to define their own planning process; such process consistent with their own needs, priorities, and institutional environment.

d. Most federal planning aids have served to increase consultant capacity rather than city capacity. Most efforts at federal technical assistance have been partial and inept.

This brief historical overview should correctly imply the need for new means to build "local capacity". I would propose that you consider "earmarking" directly in the present bill funds for management and planning assistance. Further, I would propose limiting severely the amount of funds within such an earmark which can be used for consultants. Further, I would clearly direct earmarked funds at locally elected chief executives and/or locally defined chief administrative officers. Finally, such funds should be free of federal prescription relative to how a city should plan and such funds should clearly be capable of being used to hire staff.[1]

6. The Relevance of Evaluation

Neither 1743 nor 1744 is specific about the federal role with respect to evaluating the results of the proposed new legislation. Mention of

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[1] In this context, I would hope that the Committee would pay particular attention to the needs for smaller and middle-size cities to secure competent staff. Just as we in this country have a commitment, admittedly tenuous, to "mildly" redistributed income (income tax, federal grants), we should begin to think about a policy to redistribute skills through salary and educational incentives as well as through such means as an urban talent bank (national recruitment and placement efforts).

evaluation is referred to, but no specific sum of money is allocated or earmarked. Given current hold harmless priorities and other recognized demands, evaluation needs would probably receive, at best, residual; and, at worse, haphazard attention. It is essential that the Administration and Congress initiate and maintain a policy and program relevant evaluation effort with respect to whatever legislation emerges from your studies. I would propose, as with planning, that you consider earmarking a definitive sum of money for national evaluation purposes.

I have prevailed on your time and patience long enough. I hope my critique of the existing bills has not been too harsh; I hope my suggestions for modification are helpful. Perhaps Lewis Carrolls' statement in Alice in Wonderland provides a fitting close to my testimony and a fitting frame of reference for yours and the nation's current dialogue concerning future urban policy.

> "that's the effect of living backwards," the Queen said kindly: "it always makes one a little giddy at first..."
>
> "Living backwards!" Alice repeated in great astonishment, "I never heard of such a thing!"
>
> "But there's a great advantage in it, that one's memory works both ways."
>
> "I'm sure mine only works one way," Alice remarked. "I can't remember things before they happen."
>
> "It's a poor sort of memory that only works backwards," the Queen remarked.
>
> Through the Looking Glass
> by Lewis Carroll

Testimony of Antonia Handler Chayes
Chairman, Subcommittee on Urban Planning and Development
National Academy of Sciences Advisory Committee to
The Department of Housing and Urban Development
before the
Subcommittee on Housing and Urban Affairs
of the
Senate Committee on Banking, Housing and Urban Affairs

I asked to testify today because as a member of the Academy's Advisory Committee to HUD, I have been chairing a subcommittee on the implications of revenue sharing for urban planning and development. We put together a group of people with both practical and theoretical experience, (the list is attached) and though I am speaking for myself today, the recommendations I offer are ones that the subcommittee thrashed out and will present in its Report. I will make this report available to this Subcommittee as soon as possible.

We have examined both bills, S-1743 and S-1744 as well as the State and Local Fiscal Assistance Act, and precursor block grant programs. Both proposals before this subcommittee embody a new philosophy of domestic assistance looking towards local government for the initiative and energy to deal with major social and economic problems. While the inadequacy of past

federal programs is widely recognized, the proposed shift in responsibility does not imply a changed locus of financing. Financial relief for cities continues to be a necessity, but the federal government has failed to respond to the need. It is urgent that an adequate compromise between these two bills be worked out, and that passage be secured very soon. Our work with the Department of Housing and Urban Development and in particular with Undersecretary Hyde leads me to believe that there is both capability and eagerness in that agency to work with cities to make a major dent on their most intractable problems.

There are a few major points on which I wish to concentrate, and recommend revisions for a final version of the legislation before you.

1. The Better Communities Act creates an entitlement to funds without substantive preconditions. It contains no statement of substantive social purposes or objectives. There seems a deliberate effort to strip away the legislative findings of social evils and target problems characteristic of remedial legislation since the 1930's. The only findings concern governmental waste and overlapping. The recipient local government has only to present a statement of community development objectives

and projected use of funds for the fiscal year and at the end of the year must report publicly on activities initiated and their relationship to the objectives stated. By contrast S-1744 outlines in general terms the social objectives of programs subsumed under the bill. It does not create an entitlement. In § 7, of that bill, the community is required to present an application, including a statement of objectives and a work plan specifying how the funds will be applied to achieve the statutory purposes. The plan must be approved by HUD before funds become available.

I would find the failure to deal with national goals in the Better Communities bill - eliminating all reference to equity and redistribution to be unsatisfactory. But, on the other hand, I also recognize how difficult it is to devise a formula that will enhance local freedom of choice - itself an important national priority - while at the same time ensuring adherence to broad and important national goals. Prior HUD experience illustrates the difficulties that must be overcome. The preamble and § 101 of the Model Cities legislation set forth both the federal goal of eliminating urban blight by comprehensive attack and local choice about specific program configuration as the method of achieving that goal. But HUD was unable to

respond to the local option method, and almost from the beginning burdened the program with detailed, time-consuming bureaucratic requirements, as the Banfield Report has shown. The Annual Arrangements process, also designed to encourage local priority setting has been burdened by the Project Selection System, designed to superimpose certain national goals. The insistence by federal agencies on detailed bureaucratic control over programs might be justified, if it could be shown that it resulted in achievement of the nationally-mandated goals. But this has not been the case. One can cite and document many examples - from urban renewal to the Health, Education and Welfare program of school assistance to disadvantaged children under Title I of the Elementary and Secondary Education Act. Our Report goes into some detail on this matter. The inability of HUD and other agencies to respond to pressures for local freedom should not be attributed to venality or stubborness. It is more a manifestation of the well-known inability of administrative agencies to deal bureaucratically with issues that require flexibility, or to embark on approaches that depart radically from their past patterns.

We have several suggestions to deal with this dilemma.

(1) The bill should have a clear statement of the problems it is designed to attack, and the national goals that it embodies. Neither bill attempts to define what is meant by "community development" beyond stating that it represents a consolidation of pre-existing categorical programs. It is crucial that a careful definition be worked out. I suggest that the drafters reaffirm the goals of the Housing Act of 1968 and Model Cities, and include a clear statement of Congressional intent to redress the effects of racial and economic inequality and the deterioration of the cities.

(2) The enforcement of these goals should not be remitted to HUD to be accomplished by means of planning requirements and detailed program regulations. Yet I am aware that a serious question is raised if statements of national priorities are not to be enforced by the application process. My concern would be greater if existing methods of bureaucratic enforcement had been more successful in achieving the state objectives. The specification of national goals will serve at least as a point of reference for planners and political leaders. Conversely they can provide leverage for constituencies whose objectives coincide with the nationally enacted goals.

(3) Thus I would urge, as the majority of our Subcommittee has, that a specific percentage, perhaps 75% of funds appropriated

under the compromise bill be earmarked for the carefully defined goals of reducing racial and economic inequality and urban blight. Although the Better Communities bill has a need formula heavily weighted in favor of deteriorated urban areas, with poverty counted twice, there is no assurance that the benefits would be distributed to the poor and in the eradication of blight. Under our proposal funds would be distributed by entitlement, based on a formula similar to that now proposed in S-1743, but three-fourths would have to be spent on purposes specified in the bill. This would still leave localities the freedom to find their own solutions to the problems recognized nationally for some years as most intractable. The argument for this change in the legislation is more fully developed by my colleague, Marshall Kaplan.

(4) I want to concentrate on the other major recommendations of our group - a mayoral negotiating process. The bills embody rather different approaches to the question of citizen participation. The Better Communities bill requires only that the statement of objectives be made public in draft for sixty days in order to permit comment by interested parties. The Senate bill requires certification that the applicant has afforded adequate opportunity for citizen participation in the application process and "meaningful involvement" of the residents

of the area in which community development activities will be conducted. This is an adaptation of the Model Cities formula. Neither provision is adequate. The form of consultation provided in the Administration bill would simply be insufficient to give effective voice to the most excluded groups in our society.

While the democratic electoral process, in theory, is the best method for inclusion of all groups in the decision-making process, in reality, it does not operate perfectly. On the other hand, the kinds of mechanisms established under the Economic Opportunity Act and Model Cities have not proven wholly satisfactory either. They have been ineffective in part because fragmented across too many program efforts, they have been time-consuming and far too blunt an instrument for policy choices. In many cases, these mechanisms set up to speak for the poor were not very representative. While I would prefer the approach of the Senate bill to the Better Communities bill, it does imply an amount of HUD control and possible litigation that is inimical to the entitlement approach that is so important to preserve. I therefore have an alternative process to support, also a recommendation of the Committee to which I have been referring.

It is a statutory requirement that a negotiation process take place between the mayor, or local chief executive, and a fair

representation of all significantly affected groups. The ultimate decision would remain with the politically elected leader. Only the written assurance that the process will occur, and a list of groups or parties to be included, should be pre-conditions to receipt of federal funds, in order to minimize delay. It is anticipated that the mayoral negotiation process would result in the development by the city of a plan for the expenditure of special revenue sharing funds. Such a plan is not envisaged as a lengthy paper product, for negotiations will have to be limited in time and scope. The plan ought to be available to HUD, but HUD approval should not be a precondition of funding. Its primary usefulness to both HUD and the locality would be as assurance that all affected interests had a voice in formulating the plan and as a basis for evaluation of the uses made of the funds.

A potentially serious obstacle to the effectiveness of the negotiation process is the decision as to inclusion and exclusion of particular groups. Initially, that decision would be that of the mayor, or local chief executive whose concern would be to balance representativeness against the inevitable consumption of time and energy resulting from an expanded negotiation. In order that the negotiations process not become obstructive, there would be a further statutory provision limiting right of appeal on

the issue of exclusion, to a special hearing examiner from the Office of a HUD Assistant Secretary. The examiner's decision should be rendered within a brief period - no more than thirty days - and would be final, that is, not subject to further administrative or judicial review. This limited right of review gives little potential for delay, and is designed to deal seriously with any complaint of arbitrary exclusion of parties.

Public hearings should be a preliminary to the negotiation process, to assure widespread publicity of divergent views, and a written record of the hearings should be made to aid both negotiation and decision. While hearings will give voice to interested groups, information dissemination is necessary to permit development and articulation of alternative viewpoints. Moreover, the ability to use information is not now evenly distributed; thus, any mechanism for airing viewpoints will be crude and not constructive, unless funds are made available for overcoming these deficiencies. Therefore, I would further recommend: The provision of the right to utilize federal funds for staff for the designated bargaining community groups; free and full access to information, data, studies relevant to the city's decision-making process; and continuation of assistance for the formation of regional and national community participation

organizations, to foster exchange of information and to provide technical assistance.

I recognize that for community interests, seeking greater control over services, this recommendation may not be a wholly satisfactory solution. But community control over city-wide revenue shares is not practicably possible, and the amount of federally prescribed community participation in residual categorical programs is increasingly called into question. In any case, that issue would not be foreclosed by the proposal made here.

A required process of negotiation will not insure that the interests of the least powerful and articulate groups will be protected. Nor does the process establish a parity of bargaining strength. In the event agreement could not be reached, the ultimate power would be vested in the democratically elected chief executive, not in an independent arbitral body. Despite the imperfections of the electoral process in giving full weight and access to all groups, the mayor, or other chief executive, is legally the representative of all the people. However, analogy to the Labor-Management Relations Act is misplaced because local political interests are too complex and overlapping to be subsumed in a simple two-sided bargaining process.

The negotiation process must not be considered a substitute for national policy goals, nor should it become an end in itself. The suggested process, however, in light of the experience and expectations of the 1960's, will have a forcefulness and constructiveness that will lead to choices both wiser and wider-based for revenue shares, than would obtain under a simple consultation requirement.

(5) Finally, I would urge that a provision be added to enable Congress to learn whether the national goals it has defined are being implemented. In far too many pieces of social legislation the gap between goal and achievement is alarming, and more alarming is the absence of explanation of failure. Our Committee therefore urged that Congress set aside approximately 1-2 percent of special revenue sharing appropriations for monitoring and evaluation of the program in terms of the criteria and priorities set out in the legislation. The evaluation studies must be conducted independently and the reports given to both HUD and to Congress. This recommendation is modeled after Section 307 (c) of the Federal Highway Act which has required that states set aside one and one half percent of their allocations from the Highway Trust Fund for planning and research. Under the Highway Act, states have the option of deciding how much is spent for

each function and they have the initiative of proposing actual programs of planning and research which are then submitted to the Department of Transportation. I am proposing the "set-aside" for monitoring and evaluation rather than for planning and research. These funds will permit HUD to develop far better evaluative measures than are now available.

In conclusion, I want to reiterate my sense of urgency for the passage of a compromise bill on community development revenue sharing. I hope the changes suggested here will be included. Our full argument in the Report will be available soon, and it covers many important issues that I do not have time for today. I do want to mention, though, that we emphasize the importance of planning and management funds - whether a revision of § 701 or some form of the Administration's Responsive Government bill. We spell out our conclusions about what it should contain. That legislation, together with a new Housing bill should be brought forth at once to give the cities and HUD effective means to attack urban problems that should be closer to solution than they now are.

Summary of Final Chapter of MKGK's Final Report on Model Cities

SECTION FIVE: THE MEANING OF MODEL CITIES

Probably the most promising domestic program in the 1960s, Model Cities proposed to effect a significant change in the quality of life of selected American cities within the short span of five years. In contract to other then existing federal assistance programs, Model Cities sought a comprehensive approach to urban problems; it sought to deal with social, physical and economic issues at one and the same time.

Today, some six years after initiation of the Model Cities Program, it is clear that the goal of a significant improvement in the quality of life of selected urban neighborhoods was not and is not likely to be attained. A paucity of funds, minimal federal and local capacity to define and manage and use public and private resources were among the factors which limited the ability of Model Cities to meet stated objectives.

Despite its failure to achieve quality of life goals, the Model Cities Program does offer much relative to understanding the ability of the federal and local governments to mount relevant urban programs. The analysis of twenty-one cities contained in this report offers substantial data on the interrelationships between city hall, chief executive responsibility, resident roles, and federal involvement in urban programs. This information is perhaps all the more relevant because Model Cities was viewed as reflecting a major departure from the then existing federal delivery system and at the halfway point between categorical programs and proposed general and special revenue sharing.

Twenty-One City Analysis: Meaning and Impact

This analysis, as well as those preceding it, appears to illustrate that individual cities responded to the Model Cities Program in five significantly different ways. Certainly, each of the 21 studied cities "fits" into one of five systems or one of five categories descriptive of patterns of Model City behavior.

Each system according to this and previous studies was determined by the specific interaction of the chief executive, residents, HUD, and the level of city turbulence. Similarly, each system consistently manifested a set of characteristics or outcomes related to HUD's Model Cities requirements.

Understanding the relationship among determinants and characteristics, as illustrated in this report, should permit the development of a more effective federal urban policy and more meaningful local response to local problems. To do this, however, will require a strategic hardening of the phrase "local capacity" and a concurrent reordering of the federal delivery system.

Local Capacity - An Operational Definition

Cities "fitting" within the parity system seemed to do best in responding to the Model Cities Program. They appeared to initiate more relevant planning processes and were better able to relate developed plans to HUD-prescribed activities and performance criteria, than cities in other classifications. In effect, they had "more capacity." Their chief executives were involved in the program for longer periods of time than chief executives in other cities; their resident group was more cohesive and politically integrated than similar groups in other cities; the level of turbulence or civil unrest was less than in most cities; and the federal agencies generally played a more supportive role than in other cities.

Unfortunately, the lack of visible "quality of life" improvements makes it difficult to more than speculate on the "wisdom" of defining a federal strategy which would try to induce more cities toward the parity system. But in an era when the Administration is reducing prescriptive federal regulations relative to program content and sponsorship, it seems reasonable to place a bet on the pattern of city and federal behavior indicated by the parity system. Based on Model Cities experience, it is probable that cities meeting parity characteristics will more effectively plan and manage the use of scarce resources; will move faster and more efficiently to meet national as well as local objectives concerning the quality of urban life.

Future Federal Policy Framework

Certainly, the role of the federal government in the seventies will be different from what it was in the sixties. Yet the diminution of categorical programs and the rise of "home rule" types of aid, such as general and special revenue sharing, should not lead ipso facto to the conclusion that the federal government has no role other than the distribution of income for general or more narrowly defined purposes. Hopefully, elimination of urban blight, still very much with us, despite Model Cities, and discrimination will remain part and parcel of the national commitment (and federal role), along with continued federal interest in such issues as the environment, poverty, and the general economy. In a similar vein, hopefully, in the rush

toward "reliance" on local government, the administration will continue its laudable interest in reform of institutions at all levels of government.

Perhaps central to what federal policy ought to be in the seventies is the question whether federal involvement in urban problems need always generate the supposedly onerous red tape, duplication and confusion associated with the present federal delivery system. Indeed, any argument for an active federal role, whether based on this analysis or another, must respond to this question, if it is to merit political and institutional legitimacy in Washington as well as in the cities.

Fortunately, the twenty-one cities analysis and its resultant findings concerning city behavior patterns offers initial and convincing evidence that flexible criteria can be defined with respect to the new generation of federal programs. These criteria would be, at one and the same time, more effective in assuring a city response to national as well as local objectives, and less restrictive in terms of limiting city use of federal aid than similar criteria associated with categorical programs. They would be directed at affecting the groundrules with which local governance takes place and not primarily, particularly in the short-run, the specific products of that governance. They would be based on the long-term "value" of the parity system as opposed to other systems. In turn, they would be premised on the ability of the federal government, through strategic direction of its aid and through monitoring and evaluation, to affect city movement into and city maintenance of the parity system.

Specific Policy Guidelines: As indicated earlier, HUD Model Cities guidelines or "model" asked cities to respond to structural, process, product and performance requirements. Significantly, as indicated in this report, neither HUD's product nor structural requirements really "assisted" cities to significantly improve their capacity to effectively allocated resources, or initiate particular systems. Structural characteristics were idiosyncratic to cities and not endemic to each system; product requirements meant little to most cities, and rarely measured anything but the speed and competence of somebody's pen -- most often the pen of a consultant.

Clearly, the primary requirements that affect system outcome were those related to role-playing (i.e. role of chief executive, role of residents, role of HUD), and the primary requirements related to quality of life were those related to performance criteria (coordination, institutional change, innovation, mobilization of resources, etc.). Given continuous federal commitment to Model Cities objectives (rather than the specifics of the program), criteria with respect to role-playing could and should be developed and utilized with respect to future federal urban aid programs. Given Model Cities experiences,

it is reasonable to assume that these criteria would, if met, generate improved city performance with respect to coordination etc., and subsequently more effective city allocation of resources.

To be more specific, to the extent current statutes permit, categorical program criteria concerning product and structure should be "simplified" and/or eliminated, and replaced by less "onerous" (and more monitorable) criteria -- criteria concerning the relationship of chief executives and residents to the planning and administration of program funds. Similarly, current provisions concerning general and special revenue sharing should be amended to reflect the respective roles of chief executives and residents, and the reduction of all product requirements. Finally, groundrules relative to role-playing, once defined, should be monitored by the federal government and judged according to a set of refined "known in advance" criteria, as well as city-defined achievement objectives or targets. In turn, exceptional city performance should be recognized with incentive/disincentive funding patterns -- patterns above and beyond "base funding" provided by respective revenue shares.

Role of the Chief Executive: As indicated in this study, the role of the chief executive was one of the primary determinants governing the type of system each city initiated over the course of their respective Model Cities activities. If the chief executive played a minimal role, either a staff or resident influence system emerged and the city's resultant Model Cities effort proved least effective in responding to Program expectations. Conversely, if the chief executive maintained a continuous, visible and supportive interest and participation in the program, a staff dominant, parity, or resident dominant system developed, and the subsequent characteristics of the program came closer to initial Model City hopes. Clearly, cities in the parity system -- in great part because of the ability of respective chief executives to help set, legitimize, and subsequently maintain program efforts -- approached more than cities in the other systems, the range of program objectives concerning the planning and action period.

Chief executive involvement in the program led to several observable phenomena. For example, such involvement in cities where resident groups were strong, was necessary for meaningful resident participation to take place. Certainly, continuous and visible participation by the chief executive permitted the development and maintenance of groundrules concerning roles which could be lived with by city hall and residents alike. In a similar vein, chief executive involvement and support was necessary to achieve even minimal agency response to program needs and general public support relative to the "fairness" of resource distribution.

To avoid borrowing on Model Cities experience in reforming the present categorical system or in defining those minimal groundrules governing the continued distribution of general or special revenue sharing funds, would negate at the outset the impact of the total federal delivery system. Given the Model Cities experience, and assuming federal commitment to "assist" cities help build "capacity," particularly capacity defined in terms of the characteristics associated with the parity system, the federal government should consider:

1. Establishing the politically elected chief executive's office as the single point of entry for most, if not all, federal funds directed at resolving urban problems.

   Movement toward this recommendation can occur immediately through amendment of administrative criteria associated with existing categorical programs. Where statutory guidelines associated with such programs restrict such amendment, the issue is sufficiently important to seek Congressional action.

   Revenue sharing and special revenue sharing pose a different problem. Language governing the now existing revenue sharing program and the still anticipated special revenue sharing effort implies a primary role of the chief executive but, according to recent interviews with many Mayors, does not guarantee it. Again, the role, given the Model Cities experience, is of such import as to seek clarifying verbiage in the present law and to tough language in the proposed statute and associated legislative history.

2. Establishing a consolidated management and planning grant directed at assisting cities develop improved resource allocation skills.

   Model Cities experience, particularly the experience of the 21 cities, illustrates the still minimal staff capacity inherent in most city halls and the often deleterious impact of competitive federal planning aids. These same experiences also suggest the minimal impact of consultants and othe forms of "outside" technical assistance in building capacity.

   HUD should take the lead in converting its present planning programs, including 701 and, in part, Model Cities, into more flexible city-wide management/planning aids. Similarly, other agencies should be asked to do the same with their respective planning oriented inventories. The conversion process, to the extent statutes permit, should entail: (1) reduction of geographic and content constraints with respect to city planning efforts; (2) increasing the city's ability to use respective agency planning funds for the hiring of general purpose management oriented staff;

and (3) eliminating, or at worst reducing, paper submission associated with most planning aids.

More will be needed, however, to make federal planning assistance amenable to city needs and the "new role of the chief executive." Clearly, the federal government ought to ultimately consolidate all planning efforts aimed at helping cities into a single management and planning grant, capable of being used at the discretion of the chief executive -- a discretion subject only to role and ultimate performance tests.

3. Establishing a means to effectively help cities build up staff expertise.

Certainly, the planning and action periods of most of the 21 cities would have been made more relevant if they had ready access to better, and at times more, staff. This was particularly true of smaller cities, particularly those cities not able to pay "competitive" wages or offer sustained competitive professional and avocational incentives.

Several proposals appear in order. First, just as the federal government plays a key and important role through the tax and grant-in-aid system in directing and distributing revenue, it can and should play a key role in removing impediments to the proper distribution of skills; a distribution cognizant of national priorities concerning urban problems. HUD should take the lead in developing a national "urban talent bank" program, one that permits the federal government to help recruit, train, relocate and place urban specialists in cities throughout the country. Similarly, HUD should take the lead in assisting institutions of higher learning develop more appropriate basic as well as short-term curricula concerning specific city management and planning needs. Amended federal aid to such institutions to develop curricula alternatives would seem in this regard to be appropriate.

Monitoring Performance - Chief Executive: Initiation of the above proposals will place the chief executive in a much more responsible position vis-a-vis the federal inventory than heretofore. Further, initiation of these proposals will help build his "capacity" to effectively manage federal as well as local resources.

Complementary with attempts to purposely increase the role of the chief executive along the lines suggested in this chapter, should come a strengthened but different federal monitoring and evaluation role.

This role, consistent with the findings of this study, should emphasize the measurement of actual roles rather than either the measurement of the length or content of cities' paper submissions, or the form or structure associated with the locus of resource allocation activities. That is, based on the 21 cities study, appropriate criteria related to the resource allocation role of the chief executive can and should be defined. These, for example, would relate to, among other items: (1) the frequency and level of public support for programs; (2) the scope, frequency, and type of involvement in decisions related to the planning and management of federal funds; and (3) efforts to encourage resident involvement in policy and plan formulation. As indicated, these criteria would, in effect, substitute in part for reliance on more often than not unreal plans in judging city performance or, worse, inflexible categorical program restraints. Together with criteria with respect to citizen participation and judgments relative to local achievement, they would permit the federal government to fairly judge local commitment and local success in meeting primarily locally defined objectives. They would also generate more confidence, if the Model Cities experience means anything, that the gap between quality of life objectives and city realities could be narrowed.

Role of the Residents: Characteristics associated with the nature of resident groups participating in the Model Cities Program helped determine city response patterns; in effect, the type of planning and action systems initiated and/maintained by cities. To briefly recapitulate, if the residents involved in the program were cohesive and politically integrated -- that is, if they were internally strong and their leaders players in the political process -- parity with respect to decision-making was possible, particularly in environments with minimal turbulence. Conversely, if residents were neither cohesive nor integrated, staff dominance or resident/staff influence systems resulted; the former, if the chief executive was clearly involved in the program; the latter if he was not.

It is clear that federal guidelines with respect to citizen participation are often confusing and many times inconsistent. HUD's guideline changes, as indicated in this study, clearly had an impact in moving cities from resident influence patterns to parity, or indeed staff, dominant systems. That these same guidelines had relatively little impact with respect to Dayton, the one resident dominant system, reflects more HUD's tolerance for the uniqueness of that city's effort than any basic departure from HUD's desire to avoid resident control of planning or action year activities.

Those cities that secured a meaningful resident role -- one illustrating involvement and influence, not merely legitimacy, or conversely, dominance -- were apparently able to develop more relevant plans and more effective linkages between planning and implementation. They

were clearly better able to provide more examples, even if anecdotal, of institutional change, innovation, coordination, and resource mobilization.

Given the importance of a certain kind of resident involvement on the characteristics of a city's resource allocation capacity, it behooves the federal government to build into revenue sharing and special revenue sharing as well as categorical programs, a consistent set of criteria. Obviously, these criteria should be subject to ready evaluation. Hopefully, for reasons expressed earlier, they will be responsive to parity type relationships. Among the criteria proposed are:

1. Chief executives should be asked to take the key role in initiating and maintaining a sustained and meaningful resident role in resource allocation.

2. No prescriptive organizational format relative to resident involvement should be imposed on cities. Criteria related to local performance should include, but not be limited to, the following: (a) local creation of a citizen organization appropriate to the area of concern; (b) possible local provision of independent technical assistance to resident groups; and (c) number, type, level of involvement, and impact of resident groups on public decision-making. No one standard of measurement should be in and of itself reason to discount city commitment to resident involvement. Rather, "reasonable man" standards should be used by the federal government in monitoring and evaluating local activity.

Role of Federal Government: Clearly, the "computer in the basement of the White House" is not, and should not, be upon us. Model Cities illustrated, even in its failure to achieve basic quality of life changes, the need for a continued federal concern for the problems of the national's cities. Without such a concern, many of the 21 cities would not have directed, to the extent they did and in the manner they did, time and resources to Congressionally-defined Model City objectives.

As indicated in this study, the federal government can eliminate much that is problemsome concerning categorical program criteria. Free of the need to review numerous paper submissions as well as the need to examine the detailed content of city funding proposals, the federal government should be able to assume a more relevant monitoring and evaluation function. To do this well will require more, rather than less, inter-agency discipline than shown in the Model Cities Program. A coordinated, White House-supported federal evaluation role should be initiated. This will involve Washington as well as Regional based

agencies; it should be set up on an inter-departmental basis; integrate analysis with technical assistance; and emphasize on-site rather than distant evaluation activities.

In this regard, national objectives such as the elimination of urban blight and discrimination, criteria related to the role of locally-elected chief executives and resident groups, and local progress in achieving locally set goals concerning community development, should replace categorical program criteria as governing factors determining the upper limit of federal aid.

Funding: The fact that Model Cities did not achieve its goal does not mean that the nation should turn its back on the goal itself. Indeed, it may be possible for the first time, given the advent of general and special revenue sharing, to really mount an effective attack on urban problems. For such an attack to occur, however, would require some basic re-thinking concerning the relationship of general to special revenue sharing.

Conceptually, revenue sharing, apart from the need for cities to expend funds consistent with national objectives, and apart from a possible addition of criteria relating to local role characteristics defined in this report, ought to enter cities free of restrictions. Conversely, special revenue sharing funds might well be allocated to problems related to urban blight or poverty. If this occurred, general revenue sharing would provide cities with the leverage to deal with the difficulties faced in disadvantaged areas of cities. Put another way, general revenue sharing, particularly if the funds were ample enough, could grant local chief executives the political and institutional freedom -- freedom not entirely present in Model Cities -- to allocate money to resolve service problems associated with areas inhabited by the poor or in areas characterized by extreme urban blight.

As implied, both general and special revenue sharing funds would be subject to a post audit relative to national objectives and roles. In addition, local use of special revenue sharing funds would have to illustrate attention to a range of issues related to deteriorated or deteriorating areas or areas inhabited by lower income households, and would be evaluated on the basis of local progress in meeting locally-defined targets. Options now not available ought to be provided by the Congress with respect to incentive funding; that is, the provision of funds for high "performers." Similarly, special revenue sharing provisions now apparently sought by Congress with respect to city provision of paper plans ought -- again, based on findings of the 21 cities study -- to be removed.

Technical Assistance: Elimination of most categorical program type criteria, the proposed change in the "entry" point of most existing federal funds, and the advent of revenue sharing, should cause federal agencies to gradually change their commitments to traditional client groups -- commitments causing federally-provided technical assistance to be viewed in many city halls during the Model Cities Program, as "honest subversion." Further elimination of paper submission requirements should permit more sustained technical assistance.

The type of technical assistance that the federal government can do best, given the Model Cities experience, relates to: (1) providing knowledge about the federal system; (2) providing working knowledge about what works or does not work with respect to service strategies; (3) providing select specialist assistance in key functional areas; and (4) brokering non-federal technical assistance being employed in cities around the country. The format for technical assistance that works best, again given Model Cities experience, is that which is "closest" to the city. The federal government should experiment with such agenda items as: (a) a full-time presence in select cities; (b) on-site technical assistance for sustained periods of time; (c) revolving internships for federal officials in cities; and (d) increasing use of inter-departmental TA teams. They should also look increasingly to "technology" advantages and costs, for example, of two-way cable-TV hook-ups between federal agencies and cities.

State/Metropolitan Role: States and Areawide governments, consistent with their interest and client groups, played a limited role in the Model Cities Program. Given the present routing system associated with general and special revenue sharing, only states really are effectively tied into the new system of federal aid to cities.

Perhaps this is as it should be. Federal efforts to "force" rather than influence the creation of Metropolitan governments would, given current institutional and political facts of life, be a mistake. As important, efforts by individual federal departments to create seemingly exogenous Areawide groups for certain functions would, unless receiving state/local support and federal funds, end up as many already have -- an obstacle to overcome rather than a partner in the federal system.

States ought to play the key role in creating Metropolitan bodies. Incentive funding in return for city agreement to participate in coordinated planning and action strategies, would be the most appropriate means to stimulate a meaningful Metropolitan development program. Such incentive funding could come from a bonus on top of revenue sharing or special state/federal set-asides.

Just as an expanding federal role in technical assistance should be contemplated, so too should an expanded state role. Of key import in this regard, however, will be the state capacity to put their "own house in order" with respect to urban strategies and to build up staff numbers and, more important, staff expertise. Recommendations concerning a management/planning grant to cities would be equally appropriate to states. Similarly, recommendations concerning a single point of entry for funds to cities would be relevant for current funds going to states for state development purposes.

Postscript

Model Cities was seen by most cities as directed at improving the quality of "hard" and "software" services provided the poor. This "policy" chapter has therefore concentrated on outlining strategies relative to the next wave of service strategies -- general and special revenue sharing. It is important to conclude on the note that a needed complement to a federal effort to assist cities fund services would be a federal effort directly oriented at improving resident ability to purchase such services, either in the market-place or through local taxes. Hence, there is a need to clearly coordinate a service approach with proposed Administration efforts in the income and welfare reform area.

The CHAIRMAN. We have one more witness, Miss Maxine Kurtz, board of governors, American Institute of Planners. We are glad to have Senator Haskell here who I understand will present Miss Kurtz to us.

Senator HASKELL. Mr. Chairman, thank you very much.

Senator STEVENSON. It is a great pleasure to introduce an old friend——

The CHAIRMAN. You mean a longtime friend.

Senator HASKELL. A longtime friend is far better, right. Miss Kurtz is well known to all of us in Colorado. And she has had great experience in long-range planning to make the best use of our land and make the best use of rehabilitation of our cities.

She is currently the personnel resource officer with the city and county of Denver. Her credentials indeed are impressive. She was technical director and program evaluations administrator of the Denver model cities program, head of the research and special projects division of the Denver planning office and research analyst for our Tri-County regional planning commission.

She has served as a member of the national board of governors, American Institute of Planners, and also a secretary-treasurer of that organization. In addition to her work as planner Miss Kurtz is an attorney. Please don't hold that against her.

I am an attorney, also. She is a member of the Colorado Bar Association. After earning her bachelor's degree and outstanding achievement award at the University of Minnesota, she took her law degree at Denver University and also in addition to other things holds a master's degree in government from Denver University.

Gentlemen, it is a great pleasure to introduce Miss Kurtz to you and I am sure you will find her testimony extremely productive.

Thank you very much indeed.

The CHAIRMAN. Thank you, Senator Haskell. We appreciate your coming over.

You have given a very fine introduction. Miss Kurtz, we shall be very glad to hear from you. I believe we have a statement that you have prepared. Yes, we do. That will be printed in its entirety in the record and you may present it as you see fit (see p. 679).

STATEMENT OF MAXINE KURTZ, ON BEHALF OF THE AMERICAN INSTITUTE OF PLANNERS; ACCOMPANIED BY ALBERT MASSONI, DIRECTOR OF NATIONAL AFFAIRS

Miss KURTZ. Thank you very much, Senator. In order to conserve the time of the committee I will summarize the statement since you have the full text before you.

The CHAIRMAN. Very well. For the benefit of the record will you identify the gentleman who is with you?

Miss KURTZ. Yes, sir. With me today is Mr. Albert Massoni, director of national affairs for the American Institute of Planners. He is a member of our staff and is available to work with the committee as the committee may desire.

The American Institute of Planners is the national professional planning organization devoted to the study and advancement of the art and science of city, regional, State, and national comprehensive

planning. Over 8,000 members have major responsibilities in government and in private practice, working with elected officials as well as with private organizations whose actions and policies directly affect the quality of the national environment and the development of communities of this Nation.

On behalf of the members of the institute, I wish to thank the committee for the opportunity to appear and present our views on the various issues and challenges which the committee faces in preparing legislation on the important subjects of community development, comprehensive planning, and housing.

The American Institute of Planners has had long and continuous involvement wih the national issues and local development problems inherent in planning and community development. Planning is concerned with the unified social, economic and physical development of urban and rural communities and their environs, and of States, regions and the Nation.

The essential objective of such concern is the same as the basic objective of all government and political action—guiding the patterns and forces of society for the benefit of its people. Planning provides the means by which a unit of government may fulfill its commitment to its people by anticipating and preparing for future needs inherent in the process of growth and change.

Thus the primary objective of planning is achieved in improving the effectiveness of government.

We are concentrating today on the major pieces of legislation before this committee; namely, S. 1743, the administration's proposed "Better Communities Act," and S. 1744, the "Community Development Assistance Act of 1973."

We will comment on a vitally related piece of legislation which has been introduced by Senator Stevenson as S. 854. Also included in our remarks are certain institute policy positions relative to housing programs.

We have urged that the concept of block grants, contingent primarily on the effective conduct of continuous comprehensive planning, be developed and implemented as the principal means of distributing Federal aid.

Both the bills before you achieve this funding concept but only S. 1744 would mandate adherence to a comprehensive plan. In essence both S. 1743 and S. 1744 would consolidate into one comprehensive grant program most of the hardware grant, community development assistance programs of the Department of Housing and Urban Development.

AIP recognizes the need for and supports these efforts within Congress to simplify and consolidate under a bloc-grant approach the various Federal programs affecting community development.

We strongly urge this committee to maintain an application requirement based on the preparation and implementation of plans that address themselves to national goals and require States and local governments to address these national priorities and assist in the realization of national growth policies.

All community development plans should be developed in accordance with the expressed comprehensive plan for the community as a whole.

One of the reasons for our concern over an application process relates to the Federal review and comment practice established under the auspices of OMB circular A–95. Without an application process, a thorough review and comment process as well as environmental impact statement process apparently would be negated.

AIP strongly endorses a multiyear funding concept in order to enable communities to develop effective programs and implementation strategies. Our policy suggests biennial funding, with an allocation for 2 additional years. The reservation would be subject to an evaluation of previous performance and the submittal of an application including an adequate plan for its use.

Last year the Senate included in its omnibus housing and urban development bill a title IV which would have reasserted congressional support of the comprehensive planning process.

It recognized the needs to expand the purview of the program in areas of implementation, and streamlined sections of the present public law in order to support community development activities legislated under the Senate bill.

This year, Senator Stevenson has reintroduced that same title, with minor technical changes, as S. 854. It is important that this bill be considered at the same time that this committee debates a new community development assistance program.

In part the Senate has recognized this important interrelationship by requiring that all community development programs assisted under S. 1744 be consistent with local and areawide comprehensive plans and national growth policies. Any rewrite of the section 701 comprehensive planning assistance programs should reflect an understanding of its relationship to community development programs and to all other programs of domestic assistance, whether they be social services, environmental pollution control, and multimodal transportation, law enforcement control, housing, land use, natural resources protection, and the like.

The importance of S. 854 lies in the fact that it continues section 701's emphasis on planning, but would also provide management assistance so that States and local governments can better implement their planning. This makes good sense when one understands that planning is not a static function but is in fact, a process; a process that requires continuing update and change, based on the actual implementation or lack thereof relative to the proposed plan.

Over the last 2 years, the administration has discussed the possibilities of converting the comprehensive planning program to a management assistance program. Where we find major differences between the approaches of S. 854 and the administration proposals is then in the eligible activities.

S. 854 is concerned with the development and implementation of comprehensive plans as a part of an ongoing planning process.

It rightfully recognizes the policy-planning-evaluation needs of elected officials and continues the identification and evaluation of community needs relative to a broad variety of community development activities.

The administration has proposed that, in addition, the program should support the development, improvement and modernization of

specific governmental management processes including personnel, revenue and resource allocation systems.

Granted, Government reform is a noble objective and the need might be extensively supported around the country. If that is the case, should we not establish a new program for State and local government reform? The 701 program is barely meeting the established planning needs of the country, let alone the projected needs under new community development programs.

We concur with the mandatory language of S. 854 relative to establishing a comprehensive planning process and hope that through this requirement, planning will be a more meaningful implementation tool for elected public officials.

S. 854 requires a local share, in this case a 20 percent match. We believe that a local matching requirement is important and should be maintained in the legislation rather than 100-percent financing as has been suggested by the administration.

S. 854 would also establish an evaluation process that would measure the progress made under this program which would be taken into consideration before the awarding of any new grants. We feel that this is an important new requirement that should be intrinsic to any valid comprehensive planning process, and we feel this will assist in tying management implementation to the planning process.

We feel, however, that the acquisition of historic properties or structures of architectural value should be part of the community development block grant program, and respectfully urge that this provision be stricken from S. 854.

Plans are an extravagance if their only function is to ornament the walls of the mayor's office or occupy space on his bookshelf. Contemporary planning is action planning and an essential part of the plan is the implementation section.

People cannot live in plans; they live in houses or apartments. We cannot solve the problems of decent housing by plans or fair share agreements. We can only solve them by actions. Housing is one of the greatest users of land in any metropolitan area and its actual location, density and quality uniquely is governed by the Federal funding programs—and I do not care what the land use map shows in this regard.

S. 1744 recognizes that there is a definite relationship between the community development program and federally assisted housing programs. The administration's Better Communities Act on the other hand has made no provision to insure that a recipient community would undertake a program to meet its housing needs as part of its community development efforts.

AIP supports a mandated requirement that would link subsidized housing to community development programs.

AIP urges that the supply of low- and moderate-income housing be increased and its distribution be expanded throughout metropolitan areas in order to improve accessibility to transportation facilities, decent jobs, and high quality schools and services.

In pursuit of these goals AIP urges the following:

1. The expansion of Federal funding for housing assistance.

2. The consolidation of Federal housing programs into a set of simplified and unified programs and administration procedures, emphasizing dispersal rather than concentration of subsidized housing.

3. The provision of authorization for public agencies as well as private groups to act as sponsors for federally assisted housing both in below-market interest rate programs and in mortgage insurance programs.

4. The review of all requests for all Federal housing assistance by States and regional agencies and the allocation of housing assistance in accordance with approved overall State and regional housing plans.

5. The development of an areawide review process directed at low- and moderate-income housing, in order to effectuate "affirmative action" in dispersing such housing throughout metropolitan areas.

6. Priority funding for Federal housing programs to those communities making active efforts to provide, encourage, or permit low and moderate income housing, and establishment of Federal requirements that relate grant programs, such as urban renewal, water, sewer, and open space development, be consistent with the housing plans and ordinances of a municipality.

7. The provision of additional financial incentives for States that undertake actions to increase the supply of low- and moderate-income housing through efforts emphasizing the production of such housing units and the dispersion of such housing throughout metropolitan areas and in scattered site development.

8. The provision of additional financial incentives to housing development agencies that undertake the development, administration and management of low-income housing on a metropolitan, county, regional, or State basis.

9. The inclusion in Federal housing assistance programs of additional financial assistance in the form of public service grants to those communities actively participating in the provision of housing for low- and moderate-income families. This assistance would offset the added burden on municipal revenues from this housing, including but not limited to reimbursement of all property tax losses incurred by virtue of the tax exempt or tax abatement status of such housing.

In conclusion, the American Institute of planners supports the idea of reducing the limitations of the categorical funding programs in community development, but not to the point where we repeat the mistakes so painfully discovered in the past few years.

We support the requirement for and funding of comprehensive planning processes as the way to avoid those pitfalls.

We support a flexible housing program in order to implement the one land use in a comprehensive plan most affected by Federal legislation.

Mr. Chairman, we have attached to our statement for this committee's considerations a series of specific policy recommendations relative to community development and housing legislation. We would be glad to answer any questions or provide additional materials.

Thank you.

The CHAIRMAN. Thank you very much. You have given us something to think about, a very good idea.

Let me ask this: I was down home in Alabama Wednesday. And people interested in housing plans and so forth talked to me. Actually, these were people who were connected with regional setups, maybe four or five counties in one region. They were very much disturbed by the report that starting sometime in the future, I don't know just

when, maybe the beginning of the new fiscal year, that funds for section 701 planning would be allocated to the States, instead of to local governments, and communities, as it has been since its inception.

Do you understand that to be the plan? What do you think of it?

Miss KURTZ. Well, Senator Sparkman, I would say this. There should be an alternate procedure. There are some States in the country which are well equipped to handle 701 funds on behalf of the communities within those States. And I particularly would site those in the Tennessee Valley as an example of the States that have done quite effective jobs in providing technical assistance and handling 701 funds for the subdivisions within those States.

On the other hand, I would say most of the States in the region from which I come, Rocky Mountain region, are at best marginally qualified to do this type of activity. I would say that I would not go all the way either direction.

I think I would have to suggest an alternative, that if the State is equipped to handle this, then it should be allowed to do so. And if it is not, I would suggest that there be direct funding into these regional organizations or metropolitan areas of the type that you indicate.

I recognize further that part of this is the traditional antipathy between the cities and the States, the traditional attitude that the States are kind of an anachronistic type of unit of government that is there but to be ignored as enthusiastically as possible.

I don't personally subscribe to that view of the States. But I think that unless we make it possible for the States to do something meaningful, they are just simply not going to gear up to that sort of activity.

The CHAIRMAN. Well, we talked about this some yesterday in connection with the hearings that we had. And I commented at that time that I thought it depended largely upon the extent to which a State had set itself up to participate in programs that would call for planning.

Some States actively participate in programs of this type. And other States I am of the opinion pay very little attention to these things as a State government. So it seems to me that probably in those States that do have an active participation, it might work very well.

But in those States that don't have, it seems to me it would be better to stay on the local government level.

Miss KURTZ. I might add this further comment, Senator, that it has been my observation over the 30 or so years I have been in the planning field that it is amazing how quickly units of government will gear up in response to Federal programs.

I happened to make a study of that for some research work I was doing for one of the universities in the southern part of the country. And it is amazing. Within 1 or 2 years, people can gear themselves up if they have the incentive.

The CHAIRMAN. You have quite a reputation shall I say of being a down-to-earth planner. Just how do you work in connection with planning out in Denver where you operate?

Miss KURTZ. I have never been a believer in plans as sort of a pie-in-the-sky type of operation. I think that you have to have a reasonable conceptual framework, for instance, if you were going to put $135 million into building a water diversion project, we ought to have some

relatively good idea of what we think is going to be the volume of consumption and for what purposes and this sort of thing.

I am not, as I say, a great believer in abstract research and I am not a great believer in abstract plans. I have the feeling that plans have these functions or should have.

First you set the framework for not only the locality in which you are working, but in which the State and Federal Governments can make their decisions and for that matter the private sector as well.

If we all agree to what it is we think is going to happen it becomes a self-fulfilling prophecy. That is one aspect of it. I think a second aspect is to review the alternatives that a community has in any given problem area, indicating the pros and cons and what is practical and what may be totally impractical.

For the benefit of the decisionmakers of the community, by that in my case, the mayor and city council. And say, gentlemen, if we have a, say a problem with providing hospital care, it is absolutely impossible from an engineering and architectural standpoint for us to remodel this hospital.

It has to go. It is no longer useful. So our alternatives in providing hospital care are one, and two, and three. And indicate why those alternatives are either good or bad. And now our policy board might make a recommendation to it.

But the actual staff report that goes ahead to the mayor and the city council identifies the viable alternatives and the pros and cons for each. And then the political decisionmaking process takes over and a decision is made as to what should be a disposition of the case.

The CHAIRMAN. Well, thank you very much.

Senator Stevenson?

Senator STEVENSON. Thank you, Mr. Chairman.

And thank you, Miss Kurtz, for a very helpful statement and those kind words about S. 854. There is a respectable body of opinion in the country now which says generally speaking that the regional bodies are ill-equipped to plan for the reason that they have great difficulty overriding, reconciling, and reaching political differences.

We have seen this problem in our own States, State versus metropolitan planning council. You say agencies gear up when given the incentive. I don't believe Congress really has given the States the incentive in 701. The administration is doing so, but I think it is doing so outside of the intent of the law, outside of congressional intent.

But how do you perceive the role of the States in planning, and specifically, should the Congress give the States an incentive to go into planning?

Miss KURTZ. Well, to answer the second question just categorically, in my opinion the answer would be "Yes." I think that the Congress should give States a financial incentive to enter planning.

Now the relationship of the States to its various segments would be as variable as the States themselves are. For instance, some of you may know from some of the gentlemen that we have had in the Congress from Colorado from time to time, our State is very different in its various sections.

In fact we have just concluded the longest local legislative session in the history of the Colorado general assembly.

And the whole delay, and it never was resolved, had to do with at what level would you administer a statewide land use control plan. And the reason was that nobody really felt that the State government would really know what happens in the dryland areas to the east, and the mountains bisect the community with an entirely different set of problems, and in the valleys on the western slope from which our water is drawn and all these types of consensus. There are really almost four distinct areas in the State and have very little in common with each other. And the one thing that everybody can agree on was that they did not want the State to do it, because the State was too diversified and we would have roughly the same attitude among the various sections of the State toward the State government that the various parts of the country occasionally have toward certain more or less bureaucratic decisions that are made about certain standards to which the States must conform and which are not relevant to our particular problem.

On the other hand I can imagine some of the States that are smaller and rather homogeneous in their character and general development could very well be handled by the State. I think there is no such thing as a pat answer as to what should be the relationship of the States, the regions within the State, and the local governments within them.

I think that is one of those things that should be worked out with a degree of flexibility so that we can adapt to the diversity.

Mr. Massoni. Senator Stevenson, I would like to make just one comment relative to that question. We definitely believe that every jurisdictional level of government must have some kind of planning and assistance to meet the public investment of the rest of the Federal domestic programs of the country.

That means the State also, and impact 701 has funded certain State planning programs. Because the Senate has approved a National land-use and planning bill, there probably will be more incentives for States to be involved in land-use planning as it relates to an umbrella comprehensive planning process.

I think the question gets down to something that all of us don't know about. The movement on the part of the administration to begin to administer the program outside of Washington at the State level, in terms of a draft proposal that none of us have seen, which makes it quite difficult to assess whether it might be even a viable solution.

There are definitely as Miss Kurtz mentioned, areas where direct funding of States without any coordination with the local jursdictions would be abominable in our minds.

There are certain cities and metropolitan areas that are so far advanced that their State structure would become just another bureaucratic level impediment to go through.

But until a proposal is actually on the table that all of us can assess it really makes it difficult to answer.

Senator Stevenson. The point for us is that we cannot legislate separately for 50 separate States. If we were to legislate that incentive it would be available presumably for all of the States, which if your generalization is accurate, would all gear up in response to the incentive for planning.

Would you make funds available to States that are planning an application process which would permit the bureaucrats to differentiate between one State and another?

How would we go about that?

Miss KURTZ. I would allow a degree of local autonomy. I am not impressed with the capability of the bureaucrats to evaluate the ability of a solution with respect to the internal organization of any given State.

What I am suggesting is that there be an alternative situation so that if the State is in it, that perhaps along the lines of what Marshall Kaplan was talking about, that there be some criteria as to whether or not the funding goes to the State or goes to jurisdictions within the State independently of the State, if the State does not meet these minimum capability criteria.

Senator STEVENSON. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much.

We are indebted to both of you for this dissertation. It will be hopeful to us in considering this legislation.

That concludes the hearing for this morning. The committee stands at recess until 10 o'clock Monday morning.

[Whereupon, at 12 noon the subcommittee recessed, to reconvene at 10 a.m., Monday, July 23, 1973.]

[Complete statement of American Institute of Planners follows:]

STATEMENT OF MAXINE KURTZ, AIP, BOARD OF GOVERNORS OF THE AMERICAN INSTITUTE OF PLANNERS BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS OF THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN DEVELOPMENT, COMPREHENSIVE PLANNING AND HOUSING LEGISLATION, JULY 20, 1973, WASHINGTON, D. C.

Mr. Chairman and Members of the Committee, I am Maxine Kurtz, member of the Board of Governors of the American Institute of Planners, and I am presently the Personnel Research Officer for the City and County of Denver, Colorado. With me today is Albert Massoni, Director of National Affairs for the Institute.

The American Institute of Planners is the national professional planning organization devoted to the study and advancement of the art and science of city, regional, state and National comprehensive planning. Over 8,000 members have major responsibilities in government and in private practice working with elected officials as well as with private organizations whose actions and policies directly affect the quality of the national environment and the development of communities of this Nation.

On behalf of the members of the Institute, I would like to thank the Committee for the opportunity to appear and present our views on the various issues and challenges which the Committee faces in preparing legislation on the important subjects of community development, comprehensive planning and housing.

The American Institute of Planners has had long and continuous involvement with the national issues and local development problems inherent in planning and community development. Planning is concerned with the unified social, economic and physical development of urban and rural communities and

their environs, and of States, regions and the Nation. The essential objective of such concern is the same as the basic objective of all government and political action--guiding the patterns and forces of society for the benefit of its people. Planning provides the means by which a unit of government may fulfill its commitment to its people by anticipating and preparing for future needs inherent in the process of growth and change. Thus the primary objective of planning is achieved in improving the effectiveness of government.

Last year's Senate Housing and Urban Development bill, written by this Committee, went a long way in attempting to improve the effectiveness of government in dealing with the critical issues of housing, community development, planning, and mass transit through a variety of urban and rural assistance programs. We would like to concentrate today on the major pieces of legislation before this Committee namely, S. 1743, the Administration's proposed "Better Communities Act," and S. 1744, the "Community Development Assistance Act of 1973". We would also like to comment on a vitally related piece of legislation, which in fact was included in last year's omnibus bill under Title IV - Comprehensive Planning and Management and which this year has been introduced by Senator Stevenson as S. 854. Also included in our remarks are certain Institute policy positions relative to housing programs.

Community Development Block Grants

As the former technical director of a Model Cities program, I worked for many months testing the categorical funding system and documenting its shortcomings. Many of the problems we identified in our work with the residents of the Model Neighborhood were those problems that fell between the cracks

of those categorical programs; no one had noticed that the various programs did not mesh. It also was a favorite game to exploit the overlapping programs of various agencies. Further, administration of the detailed provisions of some of these narrow acts could be ridiculous. For instance, some years ago a regional HUD official proposed to disallow the renewal of our Workable Program because Denver's housing code did not provide for screening against malarial mosquitoes. Denver is located on a semi-arid mile high plateau at the base of the Rocky Mountains, and local medical history has no records of any malarial mosquitoes for at least a century. When I pointed this out, HUD decided to withdraw its objections. But on the broader scale, these types of problems have led us planners basically to support the concept of block grant funding.

It is equally true that the subject of community development is very broad, and the early failures to recognize that breadth has led this country in the past to adopt simplistic solutions to complex problems. A real estate approach to housing for low income families led to the Pruitt-Igoe disaster in St. Louis. A lack of appreciation for the human costs of urban renewal led to the formula: urban renewal equals Black removal. As early as our national convention in 1965, Walter Reuther of the Auto Workers Union was telling the Nation's planners:

> The old piecemeal installment approach will not be adequate. What we need also to keep in mind is that it is not good enough to tear down the old slums and to build modern slums, because the quality of the plumbing does not create a satisfactory living environment. I believe that we've got to think in terms not of housing developments, but community developments in which we create a wholesome, healthy, total living environment, worthy of free men.

At this same conference, Robert L. Carter, General Counsel for the NAACP

observed:

> There has been a lot of talk about cleaning up the slums, but the various current efforts labeled urban renewal or rehabilitation all seem to be related to fulfilling the needs of the white upper middle class. This usually connotes the building of residential areas from which Negroes are expressly or tacitly excluded, or beautifying commercial areas or the development of cultural centers which cater to interests far removed from the bread and butter survival concerns of the average nonwhite city dweller. While this kind of city renewal and rehabilitation moves forward, the stench and decay of the Harlems of our cities are increasing.

We cannot afford to ignore these painful lessons in our enthusiastic pursuit of simplification of the grant process. In other words, we cannot throw out the baby with the bathwater. Comprehensive planning is required to meet the need.

These are just some of the reasons AIP has long supported the concept of program and grant consolidation. We have urged that the concept of block grants, contingent primarily on the effective conduct of continuous comprehensive planning, be developed and implemented as the principal means of distributing Federal aid. Both the bills before you would achieve this funding concept but only S. 1744 would mandate adherance to a comprehensive plan. In essence both S. 1743 and S. 1744 would consolidate into one comprehensive grant program most of the hardware grant, community development assistance programs of the Department of Housing and Urban Development. AIP recognizes the need for and supports these efforts within Congress to simplify and consolidate under a block grant approach the various Federal programs affecting community development. The multiplicity of present programs which related to these priority public concerns and the wide range of provisions and regulations associated with the different programs may have impeded achievement of the goals

which these various programs collectively seek to achieve. Each program has been fraught with red tape and excessive requirements which lack flexibility and often do not address the full set of problems or overall objectives which may exist in a particular locality. In most cases there is no guarantee of continuity of funding. For these reasons AIP recognizes that a block grant approach to community development programs should help alleviate the conflicts, duplication and lack of coordination between present national programs dealing with the improvement of the Nation's communities.

While recognizing the need for simplification and coordination in the Federal support of community development programs, we at the same time believe that the Congress should maintain certain basic requirements to insure that certain national priorities and goals are achieved. We strongly urge this Committee to maintain an application requirement based on the preparation and implementation of plans that address themselves to national goals and require States and local governments to address these National priorities and assist in the realization of national growth policies. All community development plans should be developed in accordance with the expressed comprehensive plan for the community as a whole.

Priorities should be given to the revitalization of older urban areas, with a clear emphasis on neighborhoods that are deteriorated, deteriorating or under direct threat of decline. More than 60% of the activities presently funded under the categorical grants address themselves to areas of blight or deterioration. We therefore believe that this should be a priority within any newly coordinated approach to community development. We must insure that expenditures of funds are done in furtherance of national purposes and toward

elimination of national problems. Therefore it is necessary to require some form of application process with its inherent review and approval requirements. Federal guidelines seem essential to assure that (1) the funds will be expended in accordance with the intent of Congress; (2) all necessary safeguards to protect the process against corruption are incorporated therein; and (3) all affected persons or businesses will be held harmless within the limits of reasonable monetary compensation and procedural safeguards. We believe that this can be achieved without sacrificing aspects of greater flexibility through the simplified use of a wider scope of eligible activities to carry out innovative and effective community development strategies adapted to local conditions. We believe that a completely "no-strings" approach would be neither appropriate nor practical.

As we have mentioned, one of the reasons for our concern over an application process also relates to the Federal review and comment practice established under the auspices of OMB Circular A-95. Without an application process, seemingly, a thorough review and comment process as well as environmental impact statement process would be negated. These processes have provided us with a means to insure the wise expenditure of public investment. These Federal review processes have contributed to intergovernmental coordination and a more open public decision process. Congress should insist that all block grant legislation require that recipient governments and agencies comply with Section 204 of the Demonstration Cities and Metropolitan Development Act of 1966, Title IV of Intergovernmental Cooperation Act of 1968 and Section 102(2)C of the National Environmental Policy Act of 1969.

S. 1744 comes closest to fulfilling the above needs. It requires

communities to prepare and implement plans. Its application process can be subject to review and comment. It does require that the applicant's proposed activities be consistent with comprehensive planning at the local and areawide levels. And above all the bill does stress goals and objectives to meet the housing needs of low and moderate income individuals and families residing or working in the community and that a community take steps to prevent and eliminate slums and blight and upgrade neighborhood environments through urban renewal, code enforcement and similar programs. It is for these reasons that we support S. 1744.

Other provisions in S. 1744 also bear commenting on. S. 1744 contemplates a two-year advance funding program to insure continuity from year-to-year. Two-year contracts would be made by the Secretary which would be renewed each year in order to provide for continuing support on a two-year cycle subject to adequate contract performance. AIP strongly endorses a multi-year funding concept in order to enable communities to develop effective programs and implementation strategies.

Let me give you a couple of examples from my experience. During World War II, the Federal government interned many Nisei from California in camps near Denver. When the War was over, many of these citizens chose to remain in Denver, and because of the housing shortage at the time, they settled in marginal housing near the Tri-State Buddhist church on the edge of the downtown area. I found they could afford better housing, but it was not available in the part of the City where they wanted to live. Over time, a major urban renewal project has allowed the Church to move from a converted warehouse into a new building, a residence for elderly citizens has just been opened,

and a business and cultural center for the Japanese-American community was dedicated a few days ago. Other buildings in the area also are being renovated. This has involved a considerable time span because the community is closely knit socially and culturally, and a major effort mounted all at once would have shattered it. Yet, it was necessary to know that the funds would be available to assure that the project would be consummated before the necessary investment capital could be raised.

In contrast, a NDP (Neighborhood Development Project) program was started in a semi-rural slum on Denver's outskirts. Funding, of course, was on a year-to-year basis. The population, who had been residents of the Ozarks, were uprooted by the depression dust bowls and stopped in Denver instead of going on to California. By now, they are elderly and are not particularly affluent. I guess most of them would be called "the working poor." In any event, our inability to schedule assistance for the entire area let unscrupulous real estate men and contractors pray on them; many sold out at a pittance and others paid unconscionably high rates for repairs to "fly-by-night" outfits who accurately pointed out that the housing did not meet City codes and frightened the residents into assuming hugh bills. We could not offer a firm alternative, and many families in that area were the victims. Had we been able to say with a degree of certainty that we could provide low-cost rehabilitation loans next year or the year after, most of this exploitation could have been avoided.

AIP has established a policy that suggests biennial funding contract with an allocation for two additional years, the reservation for which would be subject to an evaluation of previous performance and the submittal of an application including an adequate plan for its use.

Related to the idea of multi-year funding is the important concept of loan provisions also included in S. 1744. Without a Federally supported loan provision substantial development or redevelopment for many communities would not be feasible. Land acquisition under urban renewal has been largely financed with temporary loans locally issued, but backed by a Federal loan commitment. Communities have been able to capitalize their programs and commit up to several years worth of funds at one time, thereby maximizing their ability to undertake substantial projects with large, front-end costs. This principle is still valid under any funding mechanism used for community development.

Comprehensive Planning

As I mentioned earlier in this statement, comprehensive planning is vital if we are not to rehearse, again and again, the mistakes so painfully discovered in the past. Since the 1965 American Institute of Planners conference, our profession has been working intensively to update our skills and to broaden our knowledge so that we can better cope with the social, cultural, economic, governmental and physical problems of our cities, metropolitan areas, States, and multi-state regions. We are on the verge of a new legal revolution in my opinion. I have been a member of the AIP advisory committee for the American Law Institute's draft model land use code. That code could well sweep the Nation as fast as the Standard Zoning Enabling Act did in the 1920's. These are but a few of the developments which are dramatically increasing the demand for the services of planners. In several of the Tennessee Valley States, the State provides consulting planners to its regions. In other areas, several small jurisdictions have banded together to employ professional

skills. But small jurisdictions in general are at a decided disadvantage in securing the services they need.

Obviously, areas which anticipate urbanization do not have the fiscal resources that they will have after urbanization occurs. But by then, it is too late. The "701" program is clearly one of the best investments against future slums by enabling urbanizing areas to obtain competent, professional planning assistance.

Historically, planning was concerned almost exclusively with the physical environment. However, since World War II, it increasingly has been concerned with social, economic, cultural, and governmental aspects. In my opinion, the Model Cities program was a landmark in this movement, demonstrating, as it did, the techniques for truly comprehensive planning. The "701" program can be a vehicle for sharing those newly developed techniques with other public jurisdictions.

Last year the Senate included in its omnibus Housing and Urban Development bill a Title IV which would have reasserted Congressional support of the comprehensive planning process, recognizing the needs to expand the purview of the program in the areas of implementation and streamlining sections of the present public law in order to support community development activities legislated under the Senate bill. This year Senator Stevenson has reintroduced that same title, with minor technical changes, as S. 854. It is important that this bill be considered at the same time that this Committee debates a new community development assistance program. In part, the Senate has recognized this important interrelationship by requiring that all community development programs assisted under S. 1744 be consistent with

local and areawide comprehensive plans and national growth policies. Any rewrite of the Section 701 Comprehensive Planning Assistance Program should reflect an understanding of its relationship to community development programs and to all other programs of domestic assistance whether they be social services, environmental pollution control, multi-modal transportation, law enforcement control, housing, land use, natural resources protection and the like.

The importance of S. 854 lies in the fact that it continues Section 701's emphasis on planning, but would also provide management assistance so that States and local governments can better implement their planning. This makes eminent good sense when one understands that planning is not a static function but is in fact a process; a process that requires continuing update and change based on the actual implementation or lack thereof relative to the proposed plan.

Congress has taken significant steps in recent years to assert the need for comprehensive planning, and clear and comprehensive definitions of planning functions and activities have evolved. It is our understanding that S. 854 is designed to strengthen and to simplify the existing comprehensive planning program and to add to the list of fundable activities under this law, those management activities that are directly related and necessary to the implementation of comprehensive plans.

The "701" comprehensive planning assistance program has already had broad application across this country. It has protected the Federal investment in Federal projects. It has become a "glue" mechanism to coordinate all functional or more specialized planning and program development. It has provided a coordinative management framework. It helps produce policy and

decision-making documents and tools. It has served as a measure for community values. It has worked as a check-point of accomplishment, and served as an administrative tool for short term decision making and long range policy and goal formulation.

The "701" comprehensive planning assistance program has served all levels of government. It has supported the Federal review and comment process, assisted States, counties, and cities of all sizes. It has fostered regional cooperation throughout the country both on a metropolitan and non-metropolitan level and in fact has been the major source of funding for metropolitan and regional councils of governments. It has funded planning for economic development districts and Indian tribal planning councils. The need for comprehensive planning funds at every level of government is important. The intergovernmental legislation over the last few years has provided the incentives to plan not only at each of the levels of government, but also cooperatively among the various levels of government. Comprehensive planning must be continued and expanded to reflect our new approaches to community development and other programs of domestic assistance.

Over the last two years, the Administration has discussed the possibilities of converting the comprehensive planning program to a management assistance program. Ambiguous statements and drafts of proposed legislation have spoken of the needs to support management activities in their broadest concepts. Any attempt to change the nature of the comprehensive planning assistance program so drastically would, in fact, spread this fiscally small program so thinly as to have no meaningful effect on either the planning or management processes of State and local government.

The American Institute of Planners does not question the need to integrate planning and traditional management functions to achieve greater effectiveness in government, but given the apparently arbitrary amounts requested to support both management and planning functions, we believe that the former should be defined as rigorously within the law as the latter has been articulated in order to avoid unnecessary waste and potential conflict in allocation of extremely scarce funds. In fact, this would result in a supportive system that furthers the planning process.

S. 854 maintains and clarifies the definitions of comprehensive planning that have evolved over the last twenty years. This new definition relates planning to governmental policy objectives. The Administration would also discuss planning in relationship to policy objectives but then adds many broad management or programatic definitions to the legislation.

Both S. 854 and the Administration proposals have recognized the need to consolidate the numbers of eligible recipients into generalized categories without eliminating any of the present categories of recipients. This is commendable.

Where we find major differences between the approaches of the two proposals is in the eligible activities. S. 854 is concerned with the development and implementation of comprehensive plans as a part of an on going planning process. It rightfully recognizes the policy-planning-evaluation needs of elected officials and continues the identification and evaluation of community needs relative to the broad variety of community development activities. The Administration has proposed that, in addition, the program should support the development, improvement and modernization of specific governmental manage-

ment processes including personnel, revenue and resource allocation systems. Granted, government reform is a noble objective and the need might be extensively supported around the country. If that is the case, should we not establish a new program for State and local government reform? The "701" program is barely meeting the established planning needs of the country, let alone the projected needs under new community development programs. In this regard we are pleased to note that the Senate last year recognized the increasing demands being put on Section 701 Comprehensive planning, especially as it relates to the proposed community development program, and suggested increased appropriation authorizations to $150 and $200 million for each of the next two years of the program. Due to the increased number of clients established under the community development block grant who must conform to a comprehensive plan, we wholeheartedly agree with this fiscal projection.

S. 854 mandates the establishment of a comprehensive planning process rather than simply calling for comprehensive plans. This in itself would be a valuable reform of government by impressing upon elected officials the need to adopt and implement plans and the public policies they represent. It has become traditional to place the blame for ineffective plan implementation on the planning process itself or the plans produced. The real failure in ineffective plan implementation is more fundamentally a failure of community commitment and political leadership, rather than failure of planning concept or technique in the preparation of alternatives among which communities may choose in deciding politically, how, when, where and under what terms growth or change shall occur. If planners were to limit their scope, content and thrust rather than present the comprehensive implications of necessary plans for

development, then possibly, plans would be more palatable and implementable. However, those types of plans would not be worth making because they thrive on the avoidance of controversy and look at multifaccted problems in limited perspective. We concur with the mandatory language of S. 854 relative to establishing a comprehensive planning process and hope that through this requirement, planning will be a more meaningful implementing tool for elected public officials.

S. 854 requires a local share, in this case, a 20% match. There must be a local commitment to the planning process. We have found that throughout the history of Section 701, most State and local jurisdictions have committed double and sometimes triple the amount of required matching funds in order to have a comprehensive program that took into consideration all factors. We believe that a local matching requirement is important and should be maintained in the legislation rather than 100% financing as has been suggested by the Administration.

S. 854 would establish an evaluation process that would measure the progress made under this program and which would be taken into consideration before the awarding of any new grants. We feel that this is an important new requirement that should be intrinsic to any valid comprehensive planning process and we feel this will assist in tieing management implementation to the planning process.

One section of S. 854 that we take specific objection to is the provision which would allow the Secretary of HUD to authorize grants to assist local jurisdictions in making a survey of, or acquiring structures and sites which are of historic or architectural value. It is definitely within the purview

of comprehensive planning legislation to make surveys of historic properties and structures of architectural value, but the acquisition of such properties or structures should be a part of the community development block grant program. Historic preservation grants have traditionally been granted by the open space program and because that program is to be a part of the community block grant program we feel that this would be a misappropriation of planning funds and would be duplicative of the block grant program. We respectfully urge that that provision be stricken from S. 854.

Housing

Plans are an extravagance if their only function is to ornament the walls in the Mayor's office or occupy space on his bookshelf. Contemporary planning is action planning, and an essential part of the plan is the implementation section.

People cannot live in plans; they live in houses or apartments. We can not solve the problems of decent housing by plans or fair share agreements. We can only solve them by actions. Housing is one of the greatest users of land in any metropolitan area, and its actual location, density, and quality uniquely is governed by the Federal funding programs--and I do not care what the land use map shows in this regard. Will the poor reside in high density ghettoes or in dispersed lower density housing? Will we rehabilitate marginal homes in the central city or construct new homes in the suburbs? Will the poor have a housing choice through housing allowance programs or will government dictate where they will live through subsidized housing programs? The answers to these questions--in short, the implementation of the housing plans,

depends on what you gentlemen in Congress do in the field of housing legislation.

I am not trying to suggest simplistic solutions in housing any more than I am in comprehensive planning. America is a wonderfully diverse country; Denver doesn't have Texas malarial mosquitoes and Albuquerque doesn't have New York's high rise apartments. This is the strength of our Nation and of our democratic society. If we don't like things one way, we can try another, and it certainly is not the role of the Federal government to try to fit everyone into a strait-jacket of life styles. I saw recently a discussion that pointed out the allegedly inconsistent policies of the Federal government in providing FHA insurance and highway construction funds which encouraged suburban development and at the same time, urban renewal programs and mass transit subsidies were encouraging central city renovation. Maybe we should have both; one form of the much discussed decentralization of power is to afford choice to the local governments through devices such as these.

My point is, however, that the viable choices for implementation of the housing part of the comprehensive plan are going to be made from among the alternatives presented in the programs authorized and funded by Congress.

S. 1744 recognizes that there is a definite relationship between the community development program and Federally assisted housing programs. The Administration's Better Communities Act on the other hand has made no provision to insure that a recipient community would undertake a program to meet its housing needs as part of its community development efforts. AIP supports a mandated requirement that would link subsidized housing to community development programs. We realize that the Administration has promised to submit

to Congress its housing proposal in September, but we believe that this integral part of community development must be addressed even within their Better Communities Act. Federal housing policy has and must be an integral part of any community development program.

AIP has long endorsed the national goal of a decent home for every American. Extra efforts are needed to achieve this goal and to make real the national commitment to provide equal opportunity of choice of housing type and location for Americans of all different racial and economic backgrounds. A national community development program linked to meeting our housing needs becomes one more leverage for helping to achieve those goals.

AIP urges that the supply of low and moderate income housing be increased and its distribution be expanded throughtout metropolitan areas in consideration of increasing also accessibility to transportation facilities, decent jobs, and high quality schools and services. In pursuit of these goals AIP urges the following: (1) The expansion of Federal funding for housing assistance. (2) The consolidation of Federal housing programs into a set of simplified and unified programs and administration procedures, emphasizing dispersal rather than concentration of subsidized housing. (3) The provision of authorization for public agencies as well as private groups to act as sponsors for Federally assisted housing, in both below-market-interest-rate programs and mortgage insurance programs. (4) The review of all requests for all Federal housing assistance by state and regional agencies and the allocation of housing assistance in accordance with approved overall state and regional housing plans. (5) The development of an areawide review process directed at low and moderate income housing, in order to effectuate "affirmative action" in

dispersing such housing throughtout metropolitan areas. (6) Priority funding for Federal housing programs to those communities making active efforts to provide, encourage, or permit low and moderate income housing and establishment of Federal requirements for related grant programs, such as urban renewal, water, sewer, and open space development be consistent with the housing plans and ordinances of a municipality. (7) The provision of additional financial incentives for states that undertake actions to increase the supply of low and moderate income housing through efforts emphasizing the production of such housing units and the dispersion of such housing throughout metropolitan areas and in scattered site development. (8) The provision of additional financial incentives to housing development agencies that undertake the development, administration, and management of low income housing on a metropolitan, county, regional, or state basis. (9) The inclusion in Federal housing assistance programs of additional financial assistance in the form of public service grants to those communities actively participating in the provision of housing for low and moderate income families to offset the added burden on municipal revenues from this housing, including but not limited to reimbursement of all property tax losses incurred by virtue of the tax exempt or tax abatement status of such housing.

Summary

In conclusion, the American Institute of Planners supports the idea of reducing the limitations of the categorical funding programs in community development, but not to the point where we repeat the mistakes so painfully discovered in the past few years.

We support the requirement for and funding of comprehensive planning processes as the way to avoid those pitfalls.

We support a flexible housing program in order to implement the one land use in a comprehensive plan most affected by Federal legislation.

Mr. Chairman we have attached to our statement for this Committee's considerations a series of specific policy recommendations relative to community development and housing legislation. We would be glad to answer any questions or provide additional materials. Even though our comments have been rather lengthy, we thank you for the opportunity to present our views on these vital issues.

AIP COMMUNITY DEVELOPMENT POLICY

Adopted in Conference Session
February 24, 1973

1. That AIP supports the establishment of a new program under which:

a) All activities previously permitted under urban renewal including new-towns in town, open space and predominantly open space projects, code enforcement, legacy of parks, and neighborhood facilities programs, and all social programs directly required for their implementation would be consolidated into a community development program.

b) The time frame would be a biennial funding contract with an allocation (subject to overall program appropriations) for two additional years, the reservation for which would be subject to an evaluation of previous performance and the submittal of an application including an adequate plan for its use.

c) There would be a closer coupling of community development and housing programs, including first priority distribution of housing funds in furtherance of housing which is a part of community development activities and housing fund allocation, or even reservation where possible, for all the housing required to implement the approved community development activities.

d) The program would provide for block grants equal in amount to the aggregate tax abatement granted year by year by each community plus an add-on incentive award for all existing and future governmentally assisted housing within its boundaries. This would encourage the production of low- and moderate- income housing and at the same time help municipalities which in the past lived up to their housing responsibilities. These block grant funds should be available for broadly specified community development activities which local municipalities could use in any area, since it can be logically argued that the entire municipality is making a contribution in the form of tax abatement in furtherance of low- and moderate-income housing goals. Funds for this part of the program should be appropriated above and beyond the allocation for the basic community development program.

2. That AIP urges that any new community development program preserve those features of past components of such programs which have proven to be useful and necessary. Key among these are the following:

a) Accountability to the Federal government, and through it, to Congress, largely established through a review of an application including a plan outlining the purposes for which the funds are intended to be spent in advance of their disbursement.

b) Maintaining a concept of need, performance, and capacity as the basis for disbursement of community development block grants rather than relying

on any formula-based "automatic" distribution of funds which is bound to under-emphasize performance and reduce incentive. In this connection, the AIP supports the allocation of funds to eligible communities on the basis of a priority system including factors such as: population and population changes; extent of housing problems; other economic problems in the community and its region; past performance; need for assistance to complete previously initiated HUD-supported development plans; management capability of the municipality and of the entity responsible for program implementation; commitment to low- and moderate-income housing; apparent degree of economic feasibility of the program; and other important factors, such as loss of a major manufacturing plant or military installation or special opportunities created by new major public investment such as mass transit systems; and the activation of the reservation for the subsequent two years based on a review and reallocation of funds among potential recipients based on performance during the first two years.

c) If a local contribution is required, traditional non-cash grants-in-aid local-Federal funding relationships and regulations should be maintained to encourage cities to make substantial efforts on their own to install related community facilities, thereby expanding the leverage of Federal funds in the community development process. Eligible non-cash grant-in-aid should be clearly relevant to the community development program and their validity should be limited to a reasonable period.

d) Recognition that certain essential programs, such as disaster areas, new-towns in town, and large-scale revitablization projects, require a longer range fiscal commitment in order to be feasible by making available a maximum of 25 percent of all appropriated community development funds for longer term reservations wherever the necessity therefore can be clearly demonstrated.

e) Maintaining the protections built into the process over the years, largely through amendments to the basic statute, all of which were enacted in recognition of abuses, potentials for scandals, and loose interpretation of Congressional intent by grant recipients. Among the requirements which should be maintained are the following:

-- The one-to-one replacement requirement for low- and moderate-income housing unless the lack of need therefore can be demonstrated;

-- The requirement that at least half of the housing erected or rehabilitated as part of the overall program be for low- and moderate-income families;

-- The justification of acquisition of every structure in terms of either its physical condition, its relationship to the elimination of environmental blight, or the need for its removal to permit the achievement of plan objectives. (The elimination of the requirement for advance approval of an area plan would make the community development process again subject to a constitutional challenge, since the basis for the Berman v. Parker decision--that individual properties acquired need not in themselves meet

the criteria of substandardness if their acquisition is required in furtherance of the implementation of an overall plan--would be lost);

-- The requirement that property acquired as part of a community development program be used for specific purposes in accordance with the approved plan, that the improvement of the acquired property be undertaken within a reasonable time, and that the identity and plans of all redevelopers be disclosed fully; and

-- The requirement that each locality establish a mechanism, especially including citizens who will be directly affected for full citizen participation.

3. In those instances where an overall community development plan has been approved via the A-95 review process, in keeping with the intent of the Intergovernmental Cooperation Act of 1968, and to accelerate the implementation of such an approved plan, AIP urges that all program components which are in accord therewith be provided with expeditious administrative review. This should include further A-95 reviews as well as environmental impact statement requirements, HUD project selection criteria, and other similar requirements, if any.

4. That AIP urges further simplification of the process by exempting approved community development plans from any subsequent Federal agency reviews or ex post facto administrative policy changes.

5. That AIP opposes any stoppage and diminution in Fereral support of current community development activities which would risk the scattering of the body of expertise built up in cities throughout the country. Specifically, it opposes the termination of community development programs effective June 30, 1973, as proposed in the President's budget with no replacement proposed until a year later;

a) That, while we support a community development program, AIP vigorously supports continued funding of all community development programs at least at current fiscal year levels until such a community development program is enacted;

b) That, as a transition to a community development program, some existing programs (such as urban renewal) should continue to be funded to assist in completing on going local programs;

c) That, in recognition of the fact that over the twenty-four years of the program's existence, the average Federal contribution approximated only some $240 million per year for all of the more than thousand participating communities, AIP expresses its concern with the consistent past underfunding of the urban renewal component of the future community development program and urges a major expansion in the funding level to enable the process to make its expected contribution to the realization of the Nation's housing and environmental goals.

AIP HOUSING POLICY

Adopted in Conference Session
February 24, 1973

The American Institute of Planners reaffirms housing and community development as a basic priority of concern.

Housing Assistance

1. Recognizing the need for Federal housing assistance to low and moderate income families, we:

   a) promote the concept of subsidies to encourage the construction, rehabilitation and conservation of housing units for low and moderate income families;

   b) endorse the continuation of the housing allowance experiment;

   c) support the inclusion of social services to such families;

   d) endorse giving assistance to communities having such housing.

2. We regret the current moratorium, and urge a speedy reintroduction of subsidized programs at the Federal level with a full level of funding.

3. At the same time the Institute questions whether existing Federal housing subsidies do, in fact, accrue to those most in need or accomplish the objectives established by the programs themselves; we advocate an evaluation of subsidy programs in terms of their effectiveness in providing assistance to disadvantaged families, and offer our assistance to undertaking such a program.

New Governmental Approaches

1. Needing affirmative housing policy at the state level, AIP national and chapter efforts will be directed to increasing the capacity of states to deal with housing, in establishing priorities for housing, state subsidy programs, state finance agencies and state development corporations.

2. As the housing market is related to regional, social and economic patterns, we urge the continuation of housing planning at the metropolitan and regional level and the development of implementation means such as Metropolitan and Regional Housing Authorities.

3. We will work as individuals, chapters and a national organization to encourage local governments to develop local housing programs and priorities, which utilize a portion of revenue sharing funds to meet the needs of low and moderate income families.

Residential Growth

1. Recognizing the importance of housing and its environment at all levels of society, and our role in influencing private development and ownership, we:

a) affirm the importance of continued residential growth in concert with environmental concerns;

b) promote the use of sewer and utilities as a means to achieving desirable growth patterns;

c) reject the use of exclusionary zoning to prevent residential growth;

d) urge that housing be planned in context with total community development and services;

e) will pursue all avenues to promote housing choice by type and location.

2. We urge the reevaluation of taxing and financial policies as they affect housing.

3. We recognize the role that mobile homes are serving in meeting housing needs and urge the development of mobile home standards and planning for their accommodation.

Housing and Equal Opportunity

1. Recognizing the very large issue of discrimination in housing, we will take affirmative action to:

a) expend housing choice throughout metropolitan areas through fair share housing plans and by ending exclusionary zoning;

b) increase the access to all housing for all individuals and families;

c) amend the non-discrimination clauses in state and Federal housing laws to include the prohibition of discrimination based on sex, martial status, and family status.

1973 HOUSING AND URBAN DEVELOPMENT LEGISLATION

MONDAY, JULY 23, 1973

U.S. SENATE,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:10 a.m. in room 5302, Dirksen Senate Office Building, Senator John Sparkman, chairman of the subcommittee, presiding.

The CHAIRMAN. The committee will come to order, please.

I am hopeful some other Senators will be able to join me but we have quite a number on the witness list. I think we had better get started.

Our first witness this morning is Mr. George C. Martin, president of the National Association of Home Builders. Mr. Martin, we are very glad to have you, sir.

Mr. MARTIN. Thank you.

STATEMENT OF GEORGE C. MARTIN, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS; ACCOMPANIED BY CARL A. S. COAN, JR., LEGISLATIVE COUNSEL AND MICHAEL SUMICHRAST, CHIEF ECONOMIST

The CHAIRMAN. I do not believe you are any stranger to this committee, Mr. Martin. You know, of course, all of you that will testify, I want you to take note of this. You have prepared statements and we will place those statements in the record in their entirety and you can continue any way you want.

Mr. MARTIN. Thank you, Mr. Chairman.

[Mr. Martin's complete statement is printed at p. 715.]

Mr. MARTIN. I am George Martin, from Louisville, Ky., a builder since 1949. I am appearing today as president of the National Association of Home Builders, a trade association that represents 71,000 firms in this country and in all 50 States and with me are Carl A. S. Coan, Jr., our legislative counsel, and Michael Sumichrast, our chief economist.

We appreciate this opportunity to testify today on housing and community development legislation and we commend the subcommittee for moving ahead with these hearings at this time.

While we realize that the administration has not yet forwarded its proposals on the housing subsidy programs, we feel strongly that the present programs are a good and effective means of meeting the needs

of the low and moderate income and that they have been under suspension too long.

Before I touch upon the legislative proposals pending before the subcommittee and our views on them, I would like to talk about a very serious problem confronting housing and the homebuilding industry today. I am referring, of course, to the rapidly escalating interest rates for mortgage money and the diminishing supply of that money at any interest rate.

The premature movement to phase III earlier this year and the continuing failure to develop an appropriate antiinflation policy mix, demonstrate that this administration, like every other administration on the past 25 years, has not yet found any solution to inflation and an overheated economy than to take steps to hit housing first and hardest. With interest rates rising and the demand for money running at a high rate, the monetary authorities authorized an increase in the rates paid savers on the theory that this would divert funds into long-term savings.

Although the evidence is not in yet on exactly what has happened since the July 5 movement by the Federal Reserve Board to savings flows, indications are that we have achieved nothing more than a shift of savings around from one type of institution to another. This has been accompanied by wild bidding between commercial banks and thrift institutions for the available savings dollar, especially for 4-year deposits on which there is no interest ceiling. I have a couple of things from the newspapers yesterday. Some of them are hooked to the primate rate, some of them are hooked to the Cost-of-Living Counsel.

The first institution in any town that comes up with a 7½- or 8-percent rate is followed by another institution, trying to protect themselves from disintermediation. The consequences have been a rise in the cost of savings, enormous confusion among mortgage lenders and, in all too many instances, the closing down of the lending windows in mortgage lending institutions until the dust settles.

The CHAIRMAN. Mr. Martin, I am glad you brought that out. I have been very much disturbed about some of the things I have seen advertised in the papers recently. I was in my hometown a few days ago and at the airport one of the local banks has a branch there and I went over to speak the the persons there, and immediately my attention was directed, in fact, the two attendants there, pointed to a sign over there and said, "Look at that. That is the highest interest rate anybody has ever paid." They had a great big 8 percent posted up there. For as little as $1,000, too, over a period of 4 years.

I have noticed that in ads here and elsewhere throughout the country.

Now, you tell me there is no interest ceiling, on these certificates that are held for 4 years.

Is there anything particular why they are tied to a 4-year period or is that just an arbitrary time, a minimum of 4 years? On anything somebody will——

Mr. MARTIN. Well, that is an arbitrary time, a minimum of 4 years. There is no ceiling on what they can pay. In Elgin, Ill., there is one institution offering 8.5 percent; Orlando, 7.5 percent, and Atlanta, 7.5 percent.

Whenever the first institution in the town offers to pay 8 percent for 4-year certificates and there is any amount of withdrawals from other institutions they immediately go over to protect themselves to offer the same——

The CHAIRMAN. Yes; I realize the operation. I am trying to find out about this 4 years. I have noticed so many with this 4-year limit. What is there particularly about the 4 years. Is there an interest ceiling for instance for 3 years? or for 2 years?

Mr. MARTIN. Yes; there is an interest ceiling for deposits under 4 years. That interest ceiling——

The CHAIRMAN. That is what I wanted to find out.

Mr. MARTIN. That is at 6¾ percent for 30 months to 4 years. So, from 2½——

The CHAIRMAN. But no ceiling on the 4-year period?

Mr. MARTIN. That is correct. This has caused absolute chaos in the thrift institutions around the country. It is not creating any more money. People are running into institutions where they already had money at 4½ percent on time deposits or—5 percent on time deposits and they are taking it out of the 5 percent and putting it into the 7 percent or 7¼ percent.

So, it is narrowing the margin under which these institutions have to operate and it is a fact that they will have to raise their rates. We have had an emergency meeting in the National Housing Center with economists from all over the country from the various thrift institutions. They are paying a quarter percent increase required when the banks went up a half.

That quarter percent since they have their money out in mixed return mortgages, they will have to raise their rates for the new money they put out on their 10 percent turnover up to 150 base points or 1½ percent.

We do not know to what extent people have taken their money out of 5 percent accounts and put it into 7 percent accounts. For that reason they are closing down their windows and they say they will not make any commitments until they see what damage has been done.

The CHAIRMAN. I must say the chairman of the home loan board, one of his staff members, came to me and called my attention to the fact that so many savings and loans institutions without portfolio for mortgages were paying a much smaller percent than they can afford to pay now.

They are not prepared to handle—they are not getting the savings necessary in order to make mortgages that would go at the current rate.

Mr. MARTIN. Well, that was the release that was issued stating that it was done for the purpose of assuring a stable flow of money into the thrift institutions.

But the facts were that there had been growth in that it was second only to the last year's all-time recordbreaker, and the thrift institutions did not feel they were in any trouble.

They felt like they were getting substantial growth, and they were able to hold the line on interest rates. So this move at this time in their judgment was not necessary and has only added to the cost of the existing supply of money and will not in fact increase the quantity of money.

The CHAIRMAN. I brought this question up the other day when Mr. Dunlop was before us, just on an informal basis when he was discussing with us this new program being put into effect.

I called his attention to this, and I asked what might be done—you know, there is a committee, not really a part of the controls.

It is headed by Dr. Burns, Chairman of the Federal Reserve Board, to keep watch on interest, profits, and dividends.

Mr. MARTIN. Right.

The CHAIRMAN. Are you aware of whether or not that committee has been looking into this in any way?

Mr. MARTIN. Well, I had an opportunity to meet with Dr. Burns on Friday afternoon for about an hour. He was not aware up to that time that there had been any serious problem caused by this 2 weeks of auction-type bidding for money.

If you pick up any newspaper in the country, there are full-page ads on this. I was in Boston last Sunday, a week after the increase, and they were repainting the billboards in town advertising 6.6, coming out at 7.08 with compound interest.

Dr. Burns was not aware that this was having any damaging effect at this time, and he stated that it was not their intention to have it that way. But he did not indicate that it was any cause yet for alarm. He did not indicate that he was going to call any meeting of the committee on interest and dividends, which he chairs. We view this thing with grave alarm, and although that was not the subject of testimony this morning, I felt that it is so vital—we have already been shot out of the saddle on 235 and 236 and Farmers Home Loan Administration and Indian housing and standard FHA business which has gone to the dogs.

With 95-percent loans disappearing over the past 30 to 60 days, they will be nonexistent now. So the only source left of mortgage funds is going to be seriously damaged and will create a ratchet effect. If a lot of money gets out in these 4-year series at high interest rates, it will lock in the rates for 4 years. If the heated economy were to cool down in 6 or 9 months and they tried to reverse the situation, there is no way they can reverse it.

We will be locked in with high interest and mortgage rates in the thrift institutions for 3 or 4 years.

The CHAIRMAN. What prediction does your organization have as to the number of housing starts we may have this year?

Mr. MARTIN. Well, it is covered in an addendum that we have submitted with the statement. Do you have that?

Mr. SUMICHRAST. The first quarter of 1973 was 2.41 million units, and the second quarter was 2.21 million on an annual basis.

We expect the third quarter to be down to 1.9 million, and the fourth quarter to 1.75 million units. The first quarter of 1974 will go down to about 1.65, and the second quarter to about 1.5 million. That is about a million unit drop.

The CHAIRMAN. Do you have an annual estimate for 1973?

Mr. SUMICHRAST. 2.1 million. We already have 1,100,000 units in for the first 6 months. You cannot change that. It is in the pipeline. We are worried about the last quarter of 1973 and obviously about 1974.

The CHAIRMAN. If I am not mistaken, I heard a discussion yesterday in which one person was predicting 1,800,000 for the year.

Mr. SUMICHRAST. That would be very hard to achieve beacuse we have 1,700,000 units under construction now. The problem is we do not have money to fund these, and I do not know what will happen to these units, because the money just is not there, the commitments are not there.

We need about $50 billion on an annual rate basis for the next 6 months, close to the rate for the first 6 months, for mortgage money for residential housing alone. The problem is that the money will not be there.

The CHAIRMAN. Thank you. Proceed, Mr. Martin.

Mr. MARTIN. Higher interest rates are not only in prospect, they are already here. The only prospect is for even higher rates at a level of from 9 to 9.5 percent. This is vividly illustrated by the results of a survey we made of 83 of our largest associations asking them to report on the state of mortgage commitments, interest rate levels, and the outlook for the next 90 days. We did that last week, and we have attached the results of that survey as exhibit A. This cannot help but have a very serious effect on housing starts and the ability of people to buy homes in general.

We already covered what we think will happen. Really, I will not be surprised if it starts dropping to somewhere below the 2 million mark, because right now the thrift institutions are not making commitments for new starts at all. It is against this rather ominous background that we find ourselves discussing today housing legislation. Further clouding the situation is the state in which we find the various Federal housing programs. We testified at length before this subcommittee on April 5, concerning the subsidy programs of HUD as well as those of the Farmers Home Administration.

However, the situation has worsened since April when at least the regular FHA programs were operating. For over 3 weeks now, FHA has been out of business with no authority to insure mortgages except for commitments that were outstanding on June 30. Some of those commitments cannot be closed because the discounts are so high. To cap this situation, the GNMA tandem plan was summarily cut off about noon on June 28 without any warning. To date it has not been reinstated for either the subsidized or the unsubsidized programs, although the Secretary of HUD has promised to put it back into being for the subsidized programs to some unknown extent. Whereas, during the last credit crunch during 1969–70, the FHA programs were alive and operating at full steam, we today find them dead, dying, or at best very anemic.

We, therefore, think that the first order of business is to see that the programs we now have in being are reactivated as quickly as possible. We applaud the action of the Senate on Friday afternoon in passing by a vote of 81 to 0 House Joint Resolution 512, which would reinstate FHA and as well direct that the various subsidy programs be put back into operation.

We urge that a conference between the Senate and the House be held at the earliest possible date, and that the Senate conferees hold fast on those provisions of the resolution, which would assure that

the FHA programs are fully available to provide the support which will be needed so badly during the coming months, to provide a viable Federal alternative to the very tenuous situation in the conventional mortgage market.

I would like now to turn to the legislation pending before the subcommittee. Just a little over a week ago, the chairman introduced S. 2182 as the proposed Housing Act of 1973. Since this bill was not available until the middle of last week, we have not had time to prepare detailed comments on it. I would, therefore, like to ask the subcommittee's indulgence to submit later, for the record, our detailed commentary on the many provisions of S. 2182.

S. 2182 in many ways is similar to chapters I and II of S. 3248 passed by the Senate in March of 1972. It contains the essence of the simplification and consolidation of the National Housing Act and the U.S. Housing Act of 1937, first requested by the administration in 1970.

As we have testified twice before, we generally support the concept of simplifying the present complex laws which govern HUD's housing programs.

In reviewing S. 2182, we find that there are only a few basic changes from last year. However, some of these are quite disturbing. Probably the most disturbing feature in section 9 of the proposed Revised National Housing Act. While S. 2182 would retain the basic structure of of the present 235 and 236 programs as new sections 402 and 502 of the Revised National Housing Act, section 9 would drastically alter the method by which housing subsidy funds under these two programs would be made available. Instead of the present method of allocating these funds through the 70-some HUD area and FHA insuring offices, a whole new system, tied to individual communities, would be instituted. This, we believe, would be a serious mistake.

Under section 9, it is proposed 60 percent of the funds available in any given year for both of these programs would be allocated to metropolitan areas, based on the incidence of poverty and overcrowding in that metropolitan area and its population, in relation to that of all other metropolitan areas. From the funds available for each metropolitan area, funds would be allocated to each city of 50,000 population or more, using the same formula.

Half the funds for each city would apparently be made available to the city, with the other half made available to housing sponsors for use in accordance with the city's housing plan. The remainder of the metropolitan area's allocation would be allocated to the other cities and counties in the area, with none of the funds being made available directly to sponsors.

The rest of the funds available in each year would be split up 30 percent to nonmetropolitan areas and for research and demonstration purposes, and 10 percent to State and regional bodies for use primarily in nonmetropolitan areas. Apparently, the funds under the 30-percent allocation would be available directly to eligible sponsors and would not have to go through a governmental body.

The first question that occurs to us is, why the cumbersome and complicated process proposed by section 9? We realize that there have been reports by GAO and others indicating that the allocation of funds under the present programs has not necessarily been on a

reasonably proportional basis. However, we have seen no evidence that indicate that this is a result of any malfunctioning of the present system. Instead, it is our belief and understanding that the areas which have not received their so-called share of housing subsidy funds, are primarily those whose cost levels have exceeded the allowable mortgage limits under present law.

Furthermore, there have been some areas of the country where exclusionary practices, or antigrowth activities, have stymied the ability of sponsors to produce housing under the present programs.

Hopefully, the shift to a prototype approach contained in S. 2182 for the purpose of calculating the maximum permissible mortgage amount, will eliminate many of the problems presently experienced in providing housing in higher cost areas.

With this inhibition removed, we believe that the ills which would flow from the proposed allocation system in section 9 will far outweigh any minor changes which might occur as a result of a formula-based allocation. A most serious problem is the proposal to count poverty twice in the formula for determining the amount of assistance which would be made available for a city with a population of 50,000 or more.

We all know about the problems that have come about because of the concentration of the poor in our central cities. This type of provision will only intensify that problem, since the more poor a community has, the more housing funds it will be getting, and the more likely it will be that that community with a low incidence of poverty will have few funds available to provide subsidized housing for the poor from the inner city.

One of the principal, though not loudly articulated, goals of the present program has been to achieve a degree of dispersion of our lower income families in order to avoid large concentrations and the attendant problems we all know thus occur. This allocation formula would reverse that direction.

I was in Oklahoma yesterday. They were telling me one of the things about section 235 and the Farmers Home Administration in Oklahoma was that they had been able to get housing for the poor in rural areas, and businesses were now going to the rural areas instead of continuing to concentrate in the center cities where housing was not available. This would reverse or discourage that process, of course.

Another major concern with this section 9 is its requirement that a community would have to have a 3-year plan or certify that such a plan is under preparation before any funds could be made available to it. There is no question that our major cities will have such plans, but we doubt seriously whether many smaller suburban communities will ever get around to adopting such plans, especially when they realize that the plan will only bring low- and moderate-income housing.

The result will be the same as that which has occurred under the rent supplement program's requirement that a community either have a workable program or officially endorse the provision of rent supplement housing within its boundaries. This has kept rent supplement housing out of many smaller and suburban communities. This type of provision only reinforces the exclusionary tendencies we see in community after community in the suburbs. In effect, section 9 will

concentrate the great bulk of this subsidized housing in our central cities.

We are also seriously concerned about the fact that section 9 would place the responsibility for allocating the great bulk of the subsidy funds in the hands of local officials. These are the very same officials, in a number of cases, who now use zoning, land use controls, and other devices to prevent the production of low- and moderate-income housing. Even where this is not true, involving local officials in the allocation of these funds would establish one more redtape burden for the builder seeking to produce low- and moderate-income housing.

Builders today have to deal with local governments to obtain zoning, subdivision approval, building permits, and many other local approvals. Those building FHA housing also have to meet a myriad of Federal requirements which, in some cases, are duplicative of those imposed locally.

Section 9 would only further complicate what is already a complicated process. We fear that a builder seeking an allocation of some of the subsidy funds controlled by a local government would have to meet the other requirements imposed by that government most likely in good faith, but also most likely burdensome.

We feel very strongly that section 9 is not needed, and that its effect will be to deter the provision of low- and moderate-income housing, not to encourage it, and urge the subcommittee to reject section 9 and, instead, rely on the present system which, in general, has worked very well.

Another new departure from last year's bill would be authorization for HUD to guarantee taxable mortgage bonds, issued by public bodies to finance multifamily projects meeting the requirements of the new section 502.

We have two basic questions about this proposal. The first is why is it necessary to put public bodies into the business of developing and owning housing which under present programs has been fairly well handled by private sponsors, profit and nonprofit? If there was a demonstrated need which would be filled by moving public bodies into this area, there might be some basis for this proposal. However, we know of none.

Secondly, we wonder why it is necessary to establish what is in essence a whole new program on top of a program in order to achieve a goal which probably could be achieved much more simply. We see no reason why public bodies could not be made eligible sponsors under section 502, with a prohibition against their obligations being tax free. The basic subsidy available under 502, which would also be available under this new program, would serve to meet the need to bring rentals down to a level that could be afforded by lower income families.

There seems to be no question that one subsidy is simpler than two subsidies, especially when one performs the function of two. We urge the subcommittee to think long and hard before instituting this new program.

One significant change from last year's bill with respect to 402 and 502 programs would be to remove the mortgage insurance premium from the calculation of the maximum allowable subsidy. This would result in no mortgage insurance premium being paid with respect to any

subsidized 402 or 502 mortgage as long as any subsidy payments is made in connection with it. We believe this would be a serious mistake.

Under the present system, the mortgage insurance premiums collected in connection with 235 and 236 mortgages go into special risk insurance fund, to be available to meet claims against that fund for both the operation and administration of the programs as well as to honor insurance claims.

While we realize that to date the premiums collected have not been adequate to meet all claims against this fund, the situation, however, would have been much worse if there had been no premiums paid into the fund at all. The cost to the Federal Government is the same, whether the funds is maintained on an incremental basis, through mortgage insurance premium payments, or on an as-needed basis through annual appropriations.

However, we believe that the present system is much preferable to that proposed in the bill.

We would like to strongly endorse the new provision contained in section 402(m) of the proposed Revised National Housing Act to require HUD to provide counseling assistance to home purchasers under section 402.

To the extent there have been problems in connection with the 235 program, it is our belief that a large percentage of those problems are attributable to HUD's failure to request the necessary funds to counsel home purchasers under this program.

Amazingly, when funds were provided by Congress for fiscal year 1972, HUD failed to use them except on a demonstration basis and then only with respect to mortgages that had gone into default.

This, we feel, is inexcusable. Many of the individuals who went into default probably could have avoided it, if they had received adequate counseling beforehand. We, therefore, strongly endorse section 502(m).

I was in Oklahoma yesterday, and they have such an operation in Tulsa, in conjunction with the FHA office. It is a voluntary service by the homebuilding industry. It has been extremely successful in helping people to avoid getting into trouble on their mortgages.

We note that there are several changes in the revision of the U.S. Housing Act of 1937 adopted last year. Some of these we would like to comment on in our addendum to be filed later. However, we do note with regret that the proposal contained in last year's bill, calling for full real estate taxpayment with respect to public housing projects, has been dropped in favor of a limited experiment. We urge your considering reinstating last year's provisions.

We realize that there are many other bills dealing with housing pending before the subcommittee. In the interest of time, we will not comment on those now but we will comment on some of them in our addendum. However, we would like to comment on two bills introduced by Senators Proxmire and Williams, S. 2169 and S. 2179.

Both of these would establish a method of direct Federal financing for mortgages under sections 235 and 236. The result of this direct Federal financing would be to reduce the overall cost to the Government of these programs.

This would be highly desirable, especially if it can be done by removing this type of direct Federal mortgage lending from the budget. This, of course, is a prerequisite to such a move, since otherwise

such direct financing would result in a large budgetary deficit which would be totally unacceptable. In view of the recent precedent established with respect to the Export-Import Bank, we see no reason why these housing programs cannot be similarly treated. We also indorse the proposal in these bills that, to the maximum extent practicable, private mortgage lenders be used to initiate and service these direct loans.

We urge the subcommittee to give serious consideration to adopting these proposals.

I would like now to turn to the community development proposals pending before the subcommittee. These are S. 1743, the administration's proposed Better Communities Act and S. 1744 chapter III of last year's bill.

Unfortunately, the administration's proposal goes too far in eliminating a Federal concern as to how limited funds are to be used to meet the Nation's community development needs. It contains no assurances or means of assuring that the proposed $2 billion or more that would be involved annually would continue, after its enactment, to be allocated toward meeting the important goals toward which these funds are presently directed.

We believe this to be a fatal deficiency in S. 1743. As drafted, a city receiving funds pursuant to it could use these funds to carry out practically any physical development activity it wished without regard to other activities or any relationship to the achievement of such important goals as the elimination of slums and blight. Funds allocated under S. 1743 could be used to provide community facilities in wealthy parts of a city and completely ignore a more desperate need for such facilities in a poorer part of the city. This should not be permitted.

On the other hand, S. 1744 does not ignore the present serious needs of our cities to correct blight and deterioration and it would require that the funds made available on a block grant basis be used in accordance with a HUD-approved plan to meet the community's housing needs, to prevent and eliminate slums and blight and to carry out other neighborhood improvement programs.

We, therefore, endorse the concept embraced within S. 1744 as a more viable and appropriate use of limited Federal funds.

Again, I would like to compliment the subcommittee on its moving forward with these hearings. The Nation's needs, for housing for its low- and moderate-income families and to eliminate the conditions of blight and deterioration which are too prevalent in its cities, are too important to be delayed indefinitely. S. 3248, passed last year by the Senate by the overwhelming vote of 80 to 1, was a very good bill to deal with these problems.

While there may well be provisions of that bill which could stand improvement, it established a legislative framework within which the subcommittee can move forward expeditiously. We urge quick action on such an omnibus Housing and Urban Development Act.

Thank you for this opportunity to appear here.

The CHAIRMAN. Thank you very much, Mr. Martin. You have given us some good suggestions and you can be assured that, when the subcommittee starts to write up this legislation, full consideration will be given to it.

[Following was received for the record from the National Association of Home Builders:]

NATIONAL ASSOCIATION OF HOME BUILDERS

1625 L STREET, N.W., WASHINGTON, D.C. 20036

GEORGE C. MARTIN
PRESIDENT

TELEX 89-2600 TELEPHONE (202) 737-7435

STATEMENT OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS

before the

SUBCOMMITTEE ON HOUSING & URBAN AFFAIRS

Of The

BANKING, HOUSING, AND URBAN AFFAIRS COMMITTEE

UNITED STATES SENATE

on

HOUSING AND COMMUNITY DEVELOPMENT

July 23, 1973

Mr. Chairman and members of the Subcommittee:

My name is George C. Martin. I am a home builder from Louisville, Kentucky. I also serve as the President of the National Association of Home Builders which is the trade association of the home building industry. NAHB's membership totals more than 71,000 throughout the 50 states and Puerto Rico. Appearing with me today are Carl A. S. Coan, Jr., our Legislative Counsel, and Michael Sumichrast, our Chief Economist.

We appreciate this opportunity to testify today on housing and community development legislation, and we commend the Subcommittee for moving ahead with these hearings at this time. While we realize that the Administration has not yet forwarded its proposals on the housing subsidy programs, we feel strongly that the present programs are a good and effective means of meeting the needs of the low and moderate income and that they have been under suspension too long.

Before I touch upon the legislative proposals pending before the Subcommittee and our views on them, I would like to talk about a very serious problem confronting housing and the home building industry today. I am referring, of course, to the rapidly escalating interest rates for mortgage money and the diminishing supply of that money at any interest rate. This situation, which has grown much graver in the last two weeks, illustrates the inadequacies of overall economic policy-making which have caused the impending crisis.

The premature movement to Phase III earlier this year, and the continuing failure to develop an appropriate anti-inflation policy mix, demonstrate that this Administration, like every other Administration in the past 25 years, has not found any solution to inflation and an overheated economy than to take steps to hit housing first and hardest. With interest rates rising and the demand for money running at a high rate, the monetary authorities authorized an increase in the rates paid savers on the theory that this would divert funds into long-term savings.

Although all the evidence is not in yet on exactly what has happened since July 5 to savings flows, indications to date are that we have achieved nothing more than a shift of savings around from one type of institution to another. This has been accompanied by wild bidding between commercial banks and thrift institutions for the available savings dollar, especially for four-year deposits on which there is no interest ceiling. The consequence has been a rise in the cost of savings, enormous confusion among mortgage lenders, and, in all too many instances, the closing down of the lending windows in mortgage lending institutions until the dust settles.

Higher interest rates are not only in prospect, they are already here. The only prospect is for even higher rates at a level of from 9 to 9 1/2%. This is vividly illustrated by the results of a survey we made of 83 of our largest associations asking them to report on the state of mortgage commitments, interest rate levels, and the outlook for the next 90 days. We have attached the results of that survey as Exhibit A.

This cannot help but have a very serious effect on housing starts, and the ability of people to buy homes in general. During the first half of this year, housing starts were at an annual rate of over 2.2 million units. It is our expectation that, before the end of this year, the starts level will drop to an annual rate in the neighborhood of 1.5 to 1.6 million units, unless action is taken to insure an improved flow of funds into the mortgage market at reasonable rates. For your information I am attaching a copy of our Housing Starts Bulletin dated July 18, 1973. It details several aspects of the problems facing us.

It is against this rather ominous background that we find ourselves here today discussing housing legislation. Further clouding the situation is the state in which we find the various Federal housing programs. We testified at length before this Subcommittee on April 5 concerning the subsidy programs of HUD as well as those of the Farmers Home Administration. We seriously questioned at that time the real basis for the moratorium that was imposed on January 8 and we have yet to be presented with any evidence since then justifying the moratorium.

However, the situation has worsened since April when at least the regular FHA programs were operating. For over three weeks now, FHA has been out of business with no authority to insure mortgages except for commitments that were outstanding on June 30. To cap this situation, the GNMA Tandem Plan was summarily cut off about noon on June 28 without any warning. To date it has not been reinstated for either the subsidized or the unsubsidized programs, although the Secretary of HUD has promised to put it back into being for the subsidized programs to some unknown extent. Whereas during the last credit crunch during 1969-70 the FHA programs were alive and operating at full steam, we today find them dead, dying or at best very anemic.

We, therefore, think that the first order of business is to see that the programs we now have in being are reactivated as quickly as possible. We applaud the action of the Senate on Friday afternoon in passing by a vote of 81 - 0 H.J. Res. 512, which would reinstate FHA and as well direct

that the various subsidy programs be put back in operation. We urge that a conference between the Senate and the House be held at the earliest possible date and that the Senate conferees hold fast on those provisions of the resolution, which would assure that the FHA programs are fully available to provide the support which will be needed so badly during the coming months, to provide a viable Federal alternative to the very tenuous situation in the conventional mortgage market.

I would like now to turn to the legislation pending before the Subcommittee. Just a little over a week ago the Chairman introduced S. 2182 as the proposed Housing Act of 1973. Since this bill was not available until the middle of last week, we have not had time to prepare detailed comments on it. I would, therefore, like to ask the Subcommittee's indulgence to submit later, for the record, our detailed commentary on the many provisions of S. 2182.

S. 2182 in many ways is similar to Chapters I and II of S. 3248 passed by the Senate in March of 1972. It contains the essence of the simplification and consolidation of the National Housing Act and the U. S. Housing Act of 1937, first requested by the Administration in 1970. As we have testified twice before, we generally support the concept of simplifying the present complex laws which govern HUD's housing programs.

This is not to say that we are disenchanted with the present laws, because we believe that they have, on the whole, worked very well and have,

until recently, contributed to record levels of housing production. Therefore, as before, we urge that the Subcommittee, in acting on these proposals, assure itself that good programs and provisions of existing law are not vitiated or inadvertently omitted from any new law. We believe that the Banking Committee and the Senate last year, in acting on the Administration's proposals, did an excellent job of simplification without harming good features of present law. We hope that the same will be true this year.

In reviewing S. 2182 we find that there are only a few basic changes from last year. However, some of these are quite disturbing. Probably the most disturbing feature is Section 9 of the proposed Revised National Housing Act. While S. 2182 would retain the basic structure of the present 235 and 236 programs as new Sections 402 and 502 of the Revised National Housing Act, Section 9 would drastically alter the method by which housing subsidy funds under these two programs would be made available. Instead of the present method of allocating these funds through the 70 some HUD area and FHA insuring offices, a whole new system, tied to individual communities, would be instituted. This, we believe, would be a serious mistake.

Under Section 9, 60% of the funds available in any given year for both of these programs would be allocated to metropolitan areas based on the incidence of poverty and overcrowding in that metropolitan area and its population, in relation to that of all other metropolitan areas. From the

funds available for each metropolitan area, funds would be allocated to each city of 50,000 population or more using the same formula. Half the funds for each city would apparently be made available to the city, with the other half made available to housing sponsors for use in accordance with the city's housing plan. The remainder of the metropolitan areas's allocation would be allocated to the other cities and counties in the area, with none of the funds being made available directly to sponsors.

The rest of the funds available in each year would be split up, 30% to nonmetropolitan areas and for research and demonstration purposes, and 10% to state and regional bodies for use primarily in nonmetropolitan areas. Apparently the funds under the 30% allocation would be available directly to eligible sponsors and would not have to go through a governmental body.

The first question that occurs to us is, why is the cumbersome and complicated process proposed by Section 9 necessary? We realize that there have been reports by GAO and others indicating that the allocation of funds under the present programs has not necessarily been on a reasonably proportional basis. However, we have seen no evidence that would indicate that this is a result of any malfunctioning of the present system. Instead it is our belief and understanding that the areas, which have not received their so-called share of housing subsidy funds, are primarily those where cost levels have exceeded the allowable mortgage limits under present law. Furthermore, there have been some areas of

the country where exclusionary practices, or anti-growth activities, have stymied the ability of sponsors to produce housing under the present programs.

Hopefully the shift to a prototype approach contained in S. 2182, for the purpose of calculating the maximum permissible mortgage amount, will eliminate many of the problems presently experienced in providing housing in higher cost areas. Prototype limits recalculated annually, or more often where necessary, will avoid the problems experienced recently where mortgage limits, last set in 1970, have been far outpaced by inflation-caused housing cost increases.

With this inhibition removed, we believe that the ills which would flow from the proposed allocation system in Section 9 will far outweigh any minor changes which might occur as a result of a formula-based allocation. A most serious problem is the proposal to count poverty twice in the formula for determining the amount of assistance which would be made available for a city with a population of 50,000 or more.

We all know about the problems that have come about because of the concentration of the poor in our central cities. This type of provision will only intensify that problem, since, the more poor a community has, the more housing funds it will be getting and the more likely it will be that communities with a low incidence of poverty will have few funds available to provide subsidized housing for the poor from the inner city.

One of the principal, though not loudly articulated, goals of the present programs, has been to achieve a degree of dispersion of our lower income families, in order to avoid large concentrations and the attendant problems we all know thus occur. This allocation formula would reverse that direction.

Another major concern with Section 9 is its requirement that a community would have to have a three-year housing plan or certify that such a plan is under preparation before any funds could be made available to it. There is no question that our major cities will have such plans, but we doubt seriously whether many smaller suburban communities will ever get around to adopting such plans, especially when they realize that the plan will only bring them low and moderate income housing.

The result will be the same as that which has occurred under the rent supplement program's requirement that a community either have a workable program or officially endorse the provision of rent supplement housing within its boundaries. This has kept rent supplement housing out of many smaller and suburban communities. This type of provision only reinforces the exclusionary tendencies we see in community after community in the suburbs. In effect, Section 9 will concentrate the great bulk of this subsidized housing in our central cities.

We are also seriously concerned about the fact that Section 9 would place the responsibility for allocating the great bulk of the subsidy funds in the hands of local officials. These are the very same officials, in

many cases, who now use zoning, land use controls, and other devices to prevent the production of low and moderate income housing. Even where this is not true, involving local officials in the allocation of these funds would establish one more red-tape burden for the builder seeking to produce low and moderate income housing.

Builders today have to deal with local governments to obtain zoning, subdivision approval, building permits and many other local approvals. Those building FHA housing also have to meet a myriad of Federal requirements which, in some cases, are duplicative of those imposed locally. Section 9 would only further complicate what is already a complicated process. We fear that a builder seeking an allocation of some of the subsidy funds controlled by a local government would have to meet the other requirements imposed by that government, most likely in good faith, but also most likely burdensome.

We feel very strongly that Section 9 is not needed and that its effect will be to deter the provision of low and moderate income housing, not to encourage it. We urge the Subcommittee to reject Section 9 and, instead, rely on the present system which, in general, has worked very well.

Another new departure from last year's bill would be authorization for HUD to guarantee taxable mortgage bonds, issued by public bodies to finance multifamily projects meeting the requirements of the new Section 502. HUD would be authorized to make grants to such public bodies in an amount

not exceeding 1/3 of their interest costs. This we presume is aimed at bringing the interest costs for the bonds approximately into line with what it would be if the bonds were tax free.

We have two basic questions about this proposal. The first is, why is it necessary to put public bodies into the business of developing and owning housing which under present programs has been fairly well handled by private sponsors, profit and nonprofit? If there was a demonstrated need which would be filled by moving public bodies into this area, there might be some basis for this proposal. However, we know of none.

Secondly, we wonder why it is necessary to establish what is in essence a whole new program on top of a program, in order to achieve a goal which probably could be achieved much more simply. We see no reason why public bodies could not be made eligible sponsors under Section 502, with a prohibition against their obligations being tax free. The basic subsidy available under 502, which would also be available under this new program, would serve to meet the need to bring rentals down to a level that could be afforded by lower income families. There seems to be no question that one subsidy is simpler than two subsidies, especially when one subsidy performs the function of two. We urge the Subcommittee to think long and hard before instituting this new program.

One significant change from last year's bill with respect to the 402 and 502 programs would be to remove the mortgage insurance premium from the calculation of the maximum allowable subsidy. This would result

in no mortgage insurance premium being paid with respect to any subsidized 402 or 502 mortgage as long as any subsidy payment is made in connection with it. We believe this would be a serious mistake.

Under the present system, the mortgage insurance premiums collected in connection with 235 and 236 mortgages go into the Special Risk Insurance Fund, to be available to meet claims against that fund for both the operation and administration of the programs, as well as to honor insurance claims. While we realize that to date the premiums collected have not been adequate to meet all claims against this fund, the situation would have been much worse if there had been no premiums paid into the fund at all. The cost to the Federal government is the same, whether the fund is maintained on an incremental basis, through mortgage insurance premium payments, or on an as-needed basis through annual appropriations. However, we believe that the present system is much preferable to that proposed in the bill.

We would like to strongly endorse the new provision contained in Section 402(m) of the proposed Revised National Housing Act to require HUD to provide counseling assistance to home purchasers under Section 402. To the extent there have been problems in connection with the 235 program, it is our belief that a large percentage of those problems are attributable to HUD's failure to request the necessary funds to counsel home purchasers under the program. Amazingly, when funds were provided by Congress for fiscal year 1972, HUD failed to use them except on a demonstration

basis, and then only with respect to mortgages that had gone into default. This is inexcusable. Many of the individuals who went into default probably could have avoided it, if they had received adequate counseling beforehand. We, therefore, strongly endorse Section 402(m).

We have several other comments with respect to the various provisions of the proposed Revised National Housing Act which we would like to include in the addendum I mentioned earlier to be filed later. However, there is one matter which I believe should be mentioned at this time. This is Section 103 of S. 2182 which would initiate an experimental dual-interest rate program. Under this system, until July 1, 1975, HUD could insure mortgages without regard to the interest rate, as long as no charges in the nature of discounts or points were made in connection with the mortgage transaction. This we believe to be inappropriate and unnecessary for mortgage loans that are covered by government insurance. We urge that this provision be dropped from the bill.

We note that there are several changes in the revision of the U. S. Housing Act of 1937 adopted last year. Some of these we would like to comment on in our addendum to be filed later. However, we do note with regret that the proposal contained in last year's bill, calling for full real estate tax payment with respect to public housing projects, has been dropped in favor of a limited experiment. We endorse the concept of increasing the annual contribution of housing projects to the extent necessary

to permit these projects to pay full real estate taxes. We believe that it is a necessary prerequisite to having such projects accepted in many communities which are now reluctant to permit them. We urge the Subcommittee to give serious consideration to reinstating last year's provisions.

We realize that there are many other bills dealing with housing pending before the Subcommittee. In the interest of time we will not comment on those now, but we will comment on some of them in our addendum. However, we would like to comment on two bills introduced by Senators Proxmire and Williams (S. 2169 and S. 2179). Both of these bills would establish a method of direct Federal financing for mortgages under Sections 235 and 236. The result of this direct Federal financing would be to reduce the overall cost to the government of these programs.

This would be highly desirable, especially if it can be done by removing this type of direct Federal mortgage lending from the budget. This, of course, is a prerequisite to such a move, since otherwise such direct financing would result in large budgetary deficits which would be totally unacceptable. In view of the recent precedent established with respect to the Export-Import Bank, we see no reason why these housing programs cannot be similarly treated. We also endorse the proposal, in both bills that, to the maximum extent practicable, private mortgage lenders be used to initiate and service these direct loans. We urge the Subcommittee to give serious consideration to adopting these proposals.

I would now like to turn to the community development proposals pending before the Subcommittee. These are S. 1743, the Administration's proposed Better Communities Act, and S. 1744, Chapter III of last year's bill.

Both bills would restructure the Federal Government's present method of providing assistance to communities for carrying out community development activities. They would replace the various categorical grant programs now existent, such as urban renewal, water and sewer facilities, neighborhood facilities, and open-space land. This concept of simplification, we strongly endorse. The present categorical grant programs have over the years been overburdened with complex requirements which have only served to make it more difficult for our cities and counties to use them. We also believe that the present deep involvement of Federal officials in the making of development decisions, which more properly should be made at the local level, needs to be decreased to the lowest possible degree.

Unfortunately, the Administration's proposal goes too far in eliminating a Federal concern as to how limited Federal funds are to be used to meet the nation's community development needs. It contains no assurances, or means of assuring, that the proposed $2 billion or more that would be involved annually would continue, after its enactment, to be allocated toward meeting the important goals toward which these funds are presently directed. We believe this to be a fatal deficiency in S. 1743.

As S. 1743 is now drafted, a city receiving funds pursuant to it could use these funds to carry out practically any physical development activity it wished, without regard to other activities or any relationship to the achievement of such important goals as the elimination of slums and blight. Funds allocated under S. 1743 could be used to provide community facilities in wealthy parts of a city and completely ignore a more desperate need for such facilities in a poorer part of the city. This cannot be permitted.

On the other hand, S. 1744 does not ignore the present serious needs of our cities to correct blight and deterioration. It would require that the funds made available on a block-grant basis be used in accordance with a HUD approved plan to meet the community's housing needs, to prevent and eliminate slums and blight and to carry out other neighborhood improvement programs. This is the priority we believe should apply to the use of these funds. We, therefore, endorse the concept embraced within S. 1744 as a more viable and appropriate use of limited Federal funds.

Again, I would like to compliment the Subcommittee on its moving forward with these hearings. The nation's needs, for housing for its low and moderate income families and to eliminate the conditions of blight and deterioration which are too prevalent in its cities, are too important to be delayed indefinitely. S. 3248, passed last year by the Senate by the overhwelming vote of 80 - 1, was a very good bill to deal with these

problems. While there may well be provisions of that bill which could stand improvement, it established a legislative framework within which the Subcommittee can move forward expeditously. We urge quick action on such an omnibus housing and urban development act.

Thank you for this opportunity to appear today.

EXHIBIT A

Results of Survey of 83 cities conducted July 16 - 18, 1973

AVAILABILITY OF MORTGAGE COMMITMENTS

(Percent Distribution)

	Percent
Almost nonexistent	23.3%
Very tight	23.3
Tight	16.4
Availability limited	9.6
Readily available	27.4
	100.0%

Economics Department
National Association of Home Builders

EXHIBIT A-1

INTEREST RATE QUOTED

FOR PERMANENT MORTGAGES

July 18, 1973

Interest Rate	Percent Distribution
7	1.5%
7 1/2	5.1
7 3/4	6.6
8	15.3
8 1/4	8.8
8 1/2	24.1
8 3/8	0.7
8 3/4	15.3
8 7/8	0.7
9	13.1
9 1/4	5.8
9 1/2	0.7
Prime Rate +	
1%	0.7
2%	0.7
3%	0.7
TOTAL	99.8%

Median Interest Rate = 8.51%

EXHIBIT A-2

OUTLOOK FOR NEXT 90 DAYS

	Percent Distribution
No Change	15.1%
Uncertain	8.5
Continuing Tight Money	16.9
Rate Increase Anticipated	19.7
Poor	26.8
Improvement Anticipated	1.4
Ample Money	5.6
Good	5.6
	100.0%

Economics Department
National Association
of Homebuilders
1625 L Street, N.W.
Washington, D.C. 20036

Michael Sumichrast, Chief Economist
Robert G. Enzel, Assistant Director
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Housing Starts Bulletin

Charles P. McMahon, Publisher

N A H B

ECONOMIC NEWS NOTES

For the Building Industry

VOLUME XIX, NUMBER 7
July 18, 1973

Starts Rate Declines

The seasonally adjusted annual rate of housing starts fell 12.3% in June to 2,119,000 units from a May rate of 2,417,000 units. The single family rate decreased 11.2% to 1,129,000 units from 1,272,000 units, and the multi-family rate declined 13.5% to 990,000 units from 1,145,000 units.

Regionally, the Northeast had a 33.9% jump to 344,000 units from 257,000 units. But the North Central fell by 20.3% to a rate of 479,000 from 601,000, the South declined 15.3% to 850,000 units from 1,004,000 units, and the West decreased 19.6% to 446,000 units from 555,000 units.

Actual Starts Decline

Actual starts dipped 13.6% in June to 202,000 units from 233,800 units in May. Single family starts decreased to 115,200 units from 131,600 units, or 12.5%. Multi-family starts fell by 15.1% to 86,900 units from 102,300 units.

Regional starts show the Northeast up 8.2% to 30,300 units from 28,000 units; the North Central down 10.9% to 50,000 starts from 56,100 starts; the South minus 18.3% to 79,500 units from 97,300 units; and the West with a decline of 19.3% to 42,300 units from 52,400 units.

Building Permit Rate Increases

The seasonally adjusted annual rate of building permits issued increased 9.1% in June to 1,969,000 units from 1,804,000 units in May. The single family permit rate declined slightly (4.1%) to 882,000 units from 920,000 units. However, multi-family permits jumped 23% to 1,087,000 units from 884,000 units.

Regionally, the North Central's decline of 14.8% to 328,000 units from 385,000 units was partly offset by a 6% increase in the Northeast to 246,000 units from 232,000 units, a jump of 27.2% in the South to 945,000 units from 743,000 units, and a slight 1.4% increase in the West to 450,000 units from 444,000 units.

Mobile Home Shipments Down

May mobile home shipments declined 7% to 57,300 units from April's total of 61,600. However, shipments were 11.1% higher than the 51,800 units for May 1972.

The 1973 January-May cumulative total of 259,500 units was 13.8% more than the 228,090 units shipped during the comparable period in 1972.

The May seasonally adjusted annual rate for mobile home shipments was 661,000 units, 2.8% below April's 680,000 unit rate.

In Summary

In the first quarter of 1973, the annual rate of starts was at a 2.41 million unit level. The second quarter is down to a 2.21 million rate. From the beginning of 1973 to mid-year, the decline is 15.2%, a drop from the January rate of 2,497,000 to a June rate of 2,119,000.

In June 202,000 units were started—14% below actual starts in May and 9.5% under the starts figure for June 1972.

Still, the first six months showed unusual strength; the January-June total of 1,128,800 starts in only 48,900 units below the first six months of last year.

However, important to remember is that with the exception of May, this year's starts have been down every month compared to the same months in 1972. The outlook for housing has darkened considerably. Mortgage commitments literally disappeared overnight after July 5, 1973, the date when lending institutions were permitted to increase payments on deposits.

The S&Ls have had a negative inflow of funds since July 5. The magnitude of outflow is uncertain at this time as the war for savings between thrift institutions and commercial banks intensifies.

The same thing is happening to mutual savings banks. In the state of New York, nearly 30 banks have had an outflow of $86 million since July 5, compared to a $45 billion inflow during the same period last year. This level of outflow is close to the level registered during the latest money crunch in 1969.

An NAHB telegraphic survey, done between July 16-18, 1973 shows commitments generally unavailable in most parts of the country; the median quoted permanent mortgage rate was at 8.48%, with 23.5% of the respondents quoting rates over 9%.

Such a rapid change in interest rates and the availability of funds has never occurred before. The regulation permitting the raise in payments for deposits has created a great deal of confusion and uncertainty. In addition, the permissible increase in the savings interest rate makes it mandatory for lending institutions to raise loan rates sharply, from ½% to one percentage point.

The combination of commitments drying up, plus the highest rates on record, will result in a very drastic decline in housing starts for the balance of the year and into 1974. The drop from the high first quarter 1973 rate of 2.41 million units probably will be 38%, to a 1.5 million rate in the first quarter of 1974.

The 9% increase in June permits can be explained by the unprecedented building activity in the South, especially in Florida. During June, Florida permits increased 15% to over 30,000 units—a level never achieved in Florida or California (a state where housing activity used to run at record levels). California permits were at about 20,000 units in June.

Over the last 12 months Florida has issued more than 300,000 permits—an all time record for any state. Nearly two-thirds of these permits were in multi-family-condominium type units.

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MONTHLY COMPARISON OF ACTUAL HOUSING STARTS, 1964–1973

New Housing Activity (Thousands of Units)

May 1964–1973	Total Private & Public Housing Starts	Total Private Housing Starts	Private One Family Housing Starts	Private Multi-Family Housing Starts	—Government Programs— FHA Home Units Started[1]	FHA Project Units Started[2]	FmHA Housing Units Started[3]	VA Housing Units Started	Public Housing Units Started[4]	Seasonally Adjusted Annual Rate Total Private Housing Starts	Total Building Permits Issued
1973	202.8	202.0	115.2	86.9	NA	NA	NA	8.3	2.6	2119	1969
1972	226.3	223.1	131.9	91.2	17.1	16.1	11.9	9.6	10.9	2315	2121
1971	196.8	193.8	116.9	76.9	28.0	18.2	13.3	9.0	10.0	2008	1913
1970	141.9	135.2	83.0	52.2	21.1	18.9	5.0	5.1	7.9	1396	1322
1969	150.5	147.3	82.7	64.6	13.9	7.2	1.5	4.6	5.8	1528	1349
1968	142.5	137.9	81.4	56.4	12.3	7.0	–	5.0	–	1405	1300
1967	131.6	125.4	87.6	37.8	14.3	5.0	–	5.2	–	1248	1169
1966	123.5	120.6	79.8	40.8	12.2	2.8	–	3.9	–	1194	956
1965	158.6	151.8	97.4	54.4	15.5	3.8	–	4.9	–	1488	1241
1964	162.4	157.2	100.9	56.3	15.3	3.3	–	6.0	–	1550	1280

NEW HOUSING ACTIVITY

(In Thousands of Units)

Year	Total Private & Public Housing Starts	Total Private Housing Starts	Private One Family Housing Starts	Private Multi-Family Housing Starts	Total Building Permits Issued	FHA Home Units Started	FHA Project Units Started	VA Units Started	FmHA Units Started
1972	2378.5	2356.6	1309.2	1047.3	2130.4	198.5	192.1	104.0	91.4
1971	2084.5	2052.2	1151.0	901.2	1924.6	300.9	233.1	94.3	74.7
1970	1469.0	1433.6	812.9	620.7	1351.5	233.5	182.0	61.0	57.7
1969	1499.6	1466.8	810.6	656.2	1323.7	153.6	79.7	52.2	43.6
1968	1545.5	1507.7	899.5	608.2	1353.4	147.8	79.4	56.1	43.0
1967	1321.9	1291.6	843.9	447.7	1141.0	141.9	37.8	52.5	38.3
1966	1195.9	1165.0	778.5	386.5	971.9	129.1	29.3	36.8	25.2
1965	1509.6	1472.9	963.8	509.1	1239.8	159.9	36.7	49.4	12.5
1964	1561.0	1528.8	970.5	558.3	1285.8	154.0	50.7	59.2	11.4
1963	1642.0	1610.3	1020.7	589.6	1334.7	166.2	54.9	71.0	15.8
1962	1492.4	1462.7	991.3	471.4	1186.6	197.3	62.2	77.8	9.0
1961	1365.0	1313.0	974.4	338.6	1064.2	198.8	44.9	83.3	7.0
1960	1296.0	1252.1	994.7	257.4	998.0	225.7	35.2	74.6	4.2

MANUFACTURER'S SHIPMENT OF MOBILE HOMES
MONTHLY 1963–1973
(ACTUAL SHIPMENTS IN THOUSANDS OF UNITS)

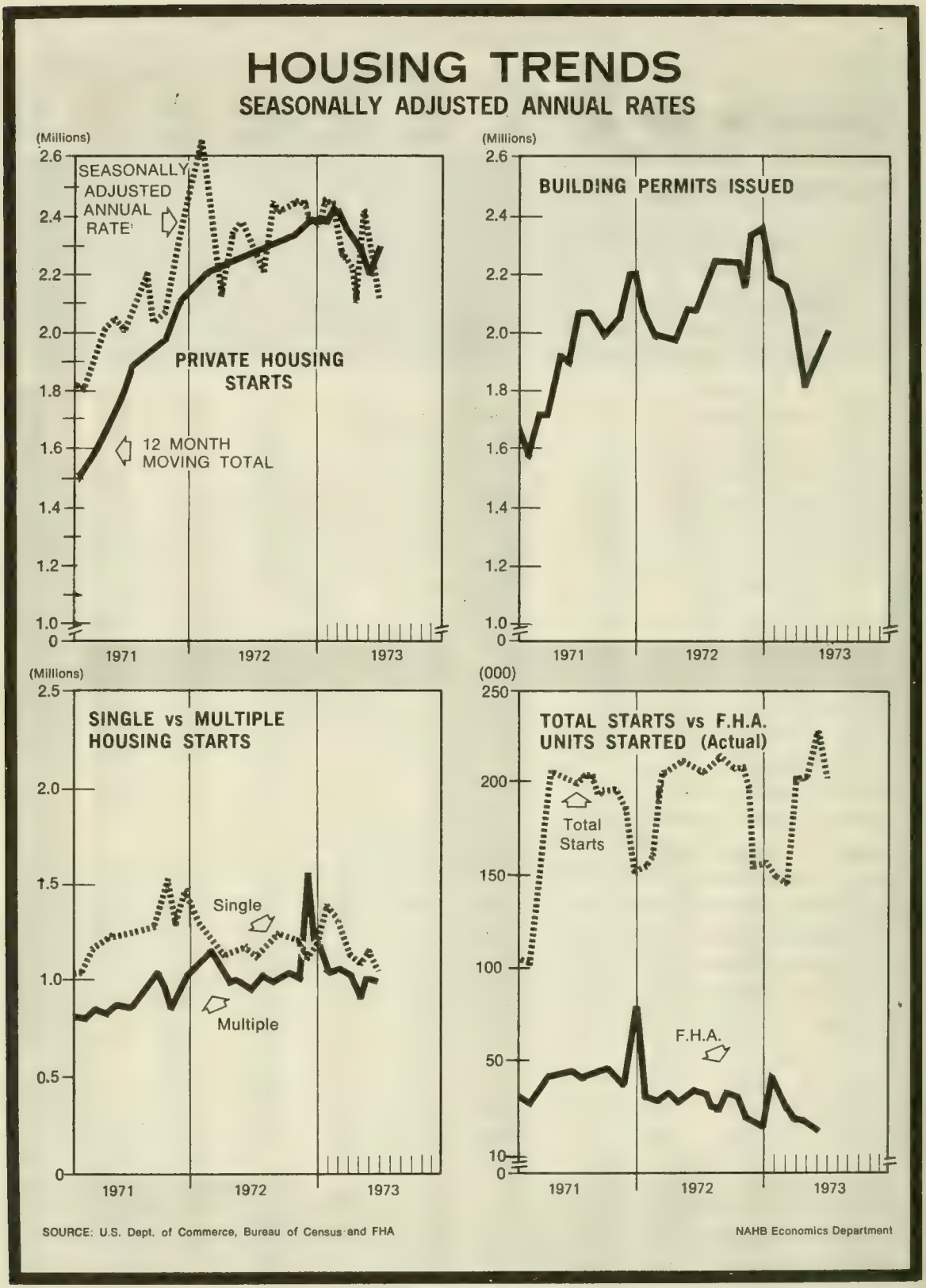
Month	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Jan	8.5	10.9	12.8	11.6	12.2	19.0	27.1	23.9	24.7	33.5	40.7
Feb	10.2	12.8	14.2	14.3	14.4	21.2	29.4	24.1	28.7	40.0	42.9
Mar	11.7	16.1	18.7	20.1	18.4	24.0	37.5	29.5	36.0	49.1	57.0
Apr	13.6	16.7	17.9	19.6	19.4	27.1	36.0	40.0	43.3	53.7	61.6
May	14.7	17.8	18.9	20.2	21.9	27.6	34.6	32.9	41.3	51.8	57.3
Jun	13.7	18.9	21.0	21.7	22.6	26.5	36.4	35.7	47.8	55.0	
Jul	13.1	16.9	17.7	18.0	19.5	27.2	35.2	37.1	45.6	48.5	
Aug	13.7	17.9	21.1	22.4	24.7	30.5	38.1	38.4	50.0	52.1	
Sep	14.2	19.0	21.4	20.0	24.2	29.9	40.1	41.4	54.0	49.1	
Oct	15.6	18.2	20.5	19.3	24.3	33.5	43.4	40.8	50.8	54.4	
Nov	11.8	14.3	17.9	17.4	21.0	27.6	32.7	30.5	39.9	50.7	
Dec	10.0	11.6	13.8	12.9	17.9	24.0	27.2	27.0	34.4	38.0	
Total:	150.8	191.3	216.5	217.3	240.4	318.0	421.7	401.2	496.6	575.9	

Source: U. S. Department of Commerce, B. D. C., *Construction Review*, Jan. 1972, Table B-7. Bureau of Census, C-20 Construction Reports.

1–FHA Home Starts include rehabilitated units.
2–FHA Project Starts exclude rehabilitated units after 1967.
3–Farmers Home Administration Starts for the last month reported have been revised downward 25% by the NAHB Economics Department to adjust for rehabilitated units and existing unit purchases. All other figures reflect actual starts.
4–Public Housing as defined by the Department of Housing and Urban Development includes conventional, public, leased and turnkey. Effective January 1971, units are shown by month reported, not month started.
Source–Bureau of the Census, U. S. Department of Commerce, *Housing Starts 1959 to 1971*, C-20 Supplement; Census, *Housing Starts*, series C-20, November 1972; Census C-20 monthly news release; Federal Housing Administration, Farmers Home Administration, Veterans Administration.

NEW HOUSING ACTIVITY
(Thousands of Units)

Year	Total Private & Public Housing Starts	Total Private Housing Starts	Private One Family Housing Starts	Private Multi-Family Housing Starts	ACTUAL STARTS Government Programs FHA Home Units Started[1]	FHA Project Units Started[2]	FmHA Housing Units Started[3]	VA Housing Units Started	Public Housing Units Started[4]	Seasonally Adjusted Annual Rate Total Private Housing Starts	Total Building Permits Issued
1973											
Jan	147.3	146.6	77.1	69.4	6.3	6.8	7.2	6.6	2.4	2497	2218
Feb	139.5	138.0	73.6	64.4	7.2	8.3	4.2	6.8	2.0	2456	2191
Mar	200.0	199.0	105.4	93.6	7.9	12.2	5.7	8.3	2.4	2248	2071
Apr	205.3	205.0	120.5	84.6	6.8	11.4	6.3	8.6	2.7	2123	1834
May	233.9	233.8	131.6	102.3	7.7	11.2	5.7	10.5	2.4	2417	1804
Jun	202.8	202.0	115.2	86.9	NA	NA	NA	8.3p	2.6	2119	1969
Jul											
Aug											
Sep											
Oct			Remaining space to be developed in monthly progression.								
Nov											
Dec											
1972											
Jan	150.9	149.1	76.2	72.9	24.1	13.8	6.1	7.5	2.5	2439	2204
Feb	153.6	152.2	76.3	75.9	19.5	10.1	5.8	8.0	2.6	2540	2056
Mar	205.8	203.9	111.4	92.5	23.6	15.5	7.9	10.5	7.7	2313	2007
Apr	213.2	211.6	119.8	91.8	19.2	11.4	7.3	8.5	2.1	2204	1991
May	227.9	225.8	135.2	90.7	18.8	15.3	8.6	9.4	3.6	2318	1955
Jun	226.3	223.1	131.9	91.2	17.1	16.1	11.9	9.6	10.9	2315	2121
Jul	207.5	206.5	119.1	87.4	14.5	14.4	6.2	9.4	0.5	2244	2108
Aug	231.0	228.6	131.3	97.4	16.9	15.1	8.5	9.9	3.3	2424	2237
Sep	204.4	203.0	120.5	82.5	14.1	15.4	7.7	8.9	3.3	2426	2265
Oct	218.2	216.5	117.0	99.5	12.8	12.6	7.8	8.5	1.7	2446	2216
Nov	187.1	185.7	97.4	88.4	10.3	12.4	8.0	8.0	1.4	2395	2139
Dec	152.7	150.5	73.2	77.3	7.6	40.0	5.7	5.8	1.4	2369	2377
1971											
Jan	114.8	110.6	54.9	55.7	23.7	9.1	4.1	4.6	10.9	1810	1668
Feb	104.6	102.2	58.3	43.9	18.5	9.2	4.3	4.7	8.6	1794	1572
Mar	169.3	167.9	91.6	76.3	23.9	10.3	6.0	6.9	5.2	1938	1722
Apr	203.6	201.1	116.0	85.0	27.1	17.5	6.1	8.4	3.7	1951	1721
May	203.5	198.5	115.6	82.9	24.5	16.2	6.5	8.3	8.2	2046	1971
Jun	196.8	193.8	116.9	76.9	28.0	18.2	13.3	9.0	10.0	2008	1913
Jul	197.0	194.3	107.7	86.6	25.4	17.5	1.6	9.2	2.8	2091	2079
Aug	205.9	204.5	111.7	92.8	29.3	16.5	7.1	9.4	3.4	2219	2046
Sep	175.6	173.8	102.1	71.7	25.1	23.2	7.3	8.7	5.5	2029	1987
Oct	181.7	179.7	102.9	76.9	24.6	13.9	6.6	8.1	2.4	2038	2027
Nov	176.4	173.7	92.9	80.9	24.1	23.2	7.0	9.1	6.9	2228	2092
Dec	155.3	152.1	80.4	71.8	27.1	58.3	4.8	7.4	7.5	2457	2191
1970											
Jan	69.2	66.4	33.4	33.0	10.3	5.9	2.0	3.4	7.1	1108	1062
Feb	77.2	74.3	41.4	32.9	12.1	5.3	2.4	3.9	3.8	1322	1118
Mar	117.8	114.7	61.9	52.8	15.9	9.4	3.8	4.8	5.9	1364	1132
Apr	130.6	128.4	73.8	54.6	20.2	11.7	4.9	5.4	8.0	1230	1224
May	127.3	125.0	74.8	50.2	18.8	17.8	5.2	5.2	6.0	1280	1328
Jun	141.9	135.2	83.0	52.2	21.1	18.9	5.0	5.1	7.9	1396	1322
Jul	143.5	140.8	75.5	65.3	22.6	20.1	3.1	5.2	5.7	1506	1324
Aug	131.5	128.7	77.3	51.4	20.8	13.0	7.1	5.6	6.7	1401	1394
Sep	133.8	130.9	76.0	54.9	21.2	13.2	5.8	5.3	8.6	1531	1426
Oct	143.8	140.9	79.4	61.5	23.9	16.5	7.0	5.8	6.3	1589	1564
Nov	128.3	126.9	67.4	59.5	21.2	12.4	5.5	5.5	5.5	1621	1502
Dec	124.1	121.4	69.0	52.4	25.3	37.8	5.0	5.7	5.6	1944	1767
1969											
Jan	105.8	101.5	51.3	50.2	8.8	4.4	4.8	3.8	4.8	1769	1459
Feb	94.6	90.1	47.9	42.1	9.2	3.5	2.5	3.5	3.3	1705	1495
Mar	135.6	131.9	71.9	59.9	12.7	5.9	1.4	3.9	3.8	1561	1438
Apr	159.9	159.9	85.0	74.0	16.0	6.7	3.3	4.4	2.6	1524	1441
May	157.7	155.5	91.3	64.3	13.4	7.3	4.0	4.3	3.1	1583	1328
Jun	150.5	147.3	82.7	64.6	13.9	7.2	1.5	4.6	5.8	1528	1349
Jul	126.5	125.2	73.5	51.7	13.1	7.2	1.1	4.7	4.9	1368	1278
Aug	127.5	124.9	69.5	55.4	12.6	9.3	5.8	4.2	5.5	1358	1317
Sep	132.9	129.3	71.5	57.9	13.1	4.9	6.1	4.8	5.8	1507	1263
Oct	125.8	123.4	68.0	55.3	15.1	9.3	4.4	5.0	6.1	1381	1216
Nov	97.4	94.6	55.1	39.5	12.2	5.8	3.1	3.9	8.1	1229	1191
Dec	85.3	84.1	42.8	41.3	13.4	8.3	2.7	4.2	6.9	1327	1155


HOUSING TRENDS
SEASONALLY ADJUSTED ANNUAL RATES
(Millions)
SEASONALLY ADJUSTED ANNUAL RATE
PRIVATE HOUSING STARTS
12 MONTH MOVING TOTAL
2.6
2.4
2.2
2.0
1.8
1.6
1.4
1.2
1.0
0
1971
1972
1973
(Millions)
BUILDING PERMITS ISSUED
(Millions)
SINGLE vs MULTIPLE HOUSING STARTS
Single
Multiple
2.5
1.5
0.5
(000)
TOTAL STARTS vs F.H.A. UNITS STARTED (Actual)
Total Starts
F.H.A.
250
200
150
100
50
10
SOURCE: U.S. Dept. of Commerce, Bureau of Census and FHA
NAHB Economics Department

The CHAIRMAN. Thank you very much.

Next is Kennon Rothchild, president of the Washington Committee of the Mortgage Bankers Association.

We are glad to have you, sir.

STATEMENT OF KENNON V. ROTHCHILD, CHAIRMAN, MORTGAGE BANKERS WASHINGTON COMMITTEE; ACCOMPANIED BY LEE HOLMES, LEGISLATIVE COUNSEL

Mr. ROTHCHILD. Thank you, very much, Mr. Chairman.

The CHAIRMAN. We have your statement and it will be printed in full in the record (see p. 744).

Mr. ROTHCHILD. Yes; we would, Mr. Chairman, like to have our full statement placed in the record. I would like to summarize.

The CHAIRMAN. It will be; go ahead.

Mr. ROTHCHILD. Mr. Chairman, I am Kennon V. Rothchild. I am president of H. & Val J. Rothchild, Inc., St. Paul Minn., and chairman of the Mortgage Bankers Washington Committee. Accompanying me is Mr. Lee Holmes, MBA legislative counsel.

Mr. Chairman, on April 11, 1973, Mr. Mattson made a detailed statement on the role of the mortgage bankers before this committee. I would summarize that by saying that mortgage bankers have produced over half of all FHA, one- to four-family mortgages since 1950. With that history we are distressed over FHA's present condition and concerned about its future. We feel the Mortgage Bankers' involvement with the Government's several housing programs, principally those of FHA and VA, has benefited both the industry and these programs.

At the same time, this involvement has made the mortgage banker vulnerable to instabilities that have always been a part of these programs. Expiring authority to insure and variations in the implementation of administrative rulings have been hazards that mortage bankers and others have encountered in these dealings.

In recent years, however, they have occurred with greater frequency and in concert with other less manageable factors such as tight credit and rising costs. Thus far, 1973 has provided all who deal with Government housing programs a much clearer understanding of how fragile and tenuous the involvement in these programs truly is.

Surely, the events of the last 2 or 3 weeks serve to create an atmosphere of urgency for the Congress and the administration to act with deliberate speed in developing and implementing sound Government housing programs.

Legislation before the committee today focuses on a number of critical housing issues. The proposal to consolidate and simplify the multiplicity of programs and purposes of the National Housing Act, S. 2182, is perhaps the most significant.

This legislation, a revision of S. 3248 which was passed by the Senate last year, retains the principal elements to which this association has addressed itself before this committee for the last several years. We continue to support many elements of this proposal. The events of the past 6 months, however, have necessitated some alteration in several of our previous responses relative to this proposal.

The association still considers the consolidation and simplification of the Government-insured housing programs to be a necessary step to a more efficient system of providing shelter. Similarly, and with particular reference to the current rising cost of housing, a system of flexible maximum mortgage amounts appears to be far superior to the current approach than providing statutory ceilings which cannot be readily adjusted, nor can they be varied to meet the needs of local markets.

Additionally, the provisions by which the Secretary is vested with permanent authority to prescribe maximum interest rates that meet and keep pace with this market is particularly important in view of the current situation.

The association does not favor the experimental dual interest rate authority which would be established by this legislation. A free interest rate with no points may be workable under some market conditions, but it will be neither practical, nor desired by the mortgagor in today's market.

Therefore, the association feels that the experiment will not provide a valid test of the free market and mortgagees would still be faced with the problem of whether the administered rate was maintained at an appropriate level.

As the committee knows, there would be little need for a free interest rate for Government-insured or guaranteed housing programs if the Secretary merely exercised his ratesetting authority in a timely fashion. The interest rate whipsawing that the FHA and VA programs commonly experience is totally unecessary and would not be commonplace but for the fact that all too often the rate becomes a matter of political expediency rather than consumer need.

Mortgage bankers have given a great deal of thought to the role or roles they play in the Federal Government's housing delivery system and, in light of current events, the industry has concluded that either their role must change or the system must be altered if there is to be any meaningful continuing relationship with these programs.

Fundamental to the industry's deliberations has been the status of FHA. We do not question that there must be both subsidized as well as unsubsidized programs available to the public, nor does the mortgage banker consider that these parallel means of providing housing are alternatives which demand a choice of participating with one or the other, but not both.

MBA's deliberations have produced the firm conviction that FHA's unsubsidized programs must be clearly severed from those which are subsidized. While much of the difficulty which FHA has experienced over the recent years can be attributed to complications in administrative redtape, we feel that it is the confusion that surrounds the management of both subsidized and unsubsidized programs by the same people which has given rise to these administrative complications.

It is the considered conclusion of the association that the portion of FHA which deals with market-oriented, unsubsidized housing programs must be removed as far as possible from those which are subsidized—hence the MBA's position that the unsubsidized programs of FHA should be independent and free of HUD.

Viewing this conclusion from another vantage point, we do not see how subsidized housing programs can ever be made to function

as they should for the people they serve and be as economically sound as possible unless they are administered separately.

We strongly recommend that the unsubsidized programs embraced by section 401 of title IV—home mortgage insurance—in the committee's proposal be made the operating responsibility of an independent Federal mortgage insurance corporation.

The new independent Government corporation would be governed by a board composed of Government officials. The administration of the corporation should be the responsibility of a Commissioner appointed by the President of the United States. All of the functions, powers, duties, and responsibilities of the Secretary which are related to the standard risk insurance programs should be transferred to and vested in this Commissioner.

With this transfer of authority must go the control and use of the mutual mortgage insurance fund which has been operated solely, since 1938, in connection with FHA operations under section 203 of the National Housing Act. There would be no budgetary impact by this transfer of responsibility, since the corporation we envision would remain a Federal instrumentality.

We do not believe there can be a true insurance concept applied to the subsidy programs which is why the special risk insurance fund is presently operating in a deficit position as is the general insurance fund.

The fact that assisting low-income homeowners and renters is expensive and risky has been clearly established. That does not mean that the task should not be undertaken; rather, it makes it that much more important to accomplish.

It also means that we should not delude ourselves by applying insurance concepts and the other paraphernalia that apply to sound risks to the subsidized programs. This is a guarantee situation wherein the Treasury stands ready to pay; let it be so.

Since its inception in 1934, the mutual mortgage insurance program of the Federal Housing Administration—FHA's major unsubsidized program:

Insured over $100 billion in mortgage loans.

Enabled moderate-income families to purchase 9 million homes.

Provided shelter for 30 million people.

Set property and credit standards that were emulated by the entire housing market.

Paid its own cost of operation and all claims.

Built an insurance reserve fund of $1.6 billion—most of which is invested in U.S. Treasury securities.

All of this, and it did not cost the taxpayer a penny. It can provide enormous support during the next few years of Federal housing program turmoil if it is used properly—as the basis for providing homeownership to the great middle economic segment of our home buying public.

We go on, Mr. Chairman, to point out support of S. 1329, which would authorize FNMA to purchase conventional mortgages up to $45,000 and to increase their loan evaluation from 75 to 80 percent.

This proposal is timely and will provide much needed additional mortgage funds for home buyers. We urge the committee to seek its passage.

The MBA also supports legislation which would provide an effective means of dealing with the problems in the closing and settlement area that were pointed out by the February 1972 HUD–VA report to the Congress on mortgage settlement costs.

We agree with the views expressed last year by the Federal Home Loan Bank Board that any attempt to get at these problems by means of federally imposed maximum limits on charges for settlement services is certain to be less effective and will place an unfair burden on thousands of companies and individuals whose present charges are reasonable.

By attacking the underlying problems, such as the lack of consumer understanding of the nature and costs of settlement services and the existence of kickbacks or referral fees, MBA believes that settlement costs can be kept to reasonable levels without incurring the many drawbacks of having the Federal Government fix the charges that can be made for settlement services.

Furthermore, any steps taken to control settlement costs must apply to all mortgage lenders, not just those involved in federally insured or guaranteed programs, in order that all borrowers are benefited.

S. 971, introduced by Senator Taft, suggests a new approach to stem the tide of deterioration and abandonment of lower income housing. It may be desirable to authorize a demonstration program of the type suggested by this proposal to establish the viability of the preservation concept.

Section 403 in S. 971 would have FHA-approved mortgages assume some or all of the functions relating to the processing and approval of applications for mortgage insurance under the several HUD–FHA programs. Determination of the functions involved and the extent of responsibility to be assumed by mortgagees would be vested in the Secretary in the form of a report on these matters to the appropriate congressional committees.

MBA worked with HUD on precisely this matter some months ago and developed a program which HUD now calls accelerated processing. The program has been successfully operating for a year in six HUD area offices. Benefits are derived by both HUD and mortgagees and we consider the effort to be mutually beneficial.

The association considers that greater responsibility for mortgagees involved in the Government-insured and guaranteed programs is appropriate.

While the mortgage banker is quite adaptable and not solely dependent upon specific investors or specific programs, he is very dependent upon the presence and availability of a viable Federal mortgage insurance program in order to provide the necessary security to investor's capital which is lent at long distances in these insured Government programs.

We doubt very much that a simple program guarantee can ever produce the nationwide market that has been developed as a result of section 203(b) and the mutual mortgage insurance fund. The real need for a national market will be seen again in the next few months as credit tightens further and moderate-income home buyers in typi-

cally credit surplus, as well as credit deficit areas, find it impossible to purchase a home in the conventional market. It is this borrower and others with even lower incomes that the FHA 203(b) program and the mortgage banker have served over the years. We need the assurance that we can continue to serve him in the soundest and most efficient manner.

Thank you, Mr. Chairman. I would be glad to answer any of your questions.

The CHAIRMAN. Thank you, very much, Mr. Rothchild. You have given us a very interesting and effective discussion of this whole problem. You have pointed out some strong points of some of the programs; some points that need strengthening or changing.

Let me ask you just this one question: The GAO has from time to time recommended or certainly has pointed out that the Government could save money in many of these programs by making direct loans rather than having some other form of subsidy or assistance.

What are your thoughts on that?

Mr. ROTHCHILD. Mr. Chairman, my history with direct loans goes back to a long involvement with local housing authorities and their attempt to provide low-income housing through direct lending.

I have really never seen an effective delivery of low-income housing through direct loans. I personally believe that the concept of the 235 and 236 programs is one that has delivered the most low-income housing and if that is our purpose, that concept should be maintained.

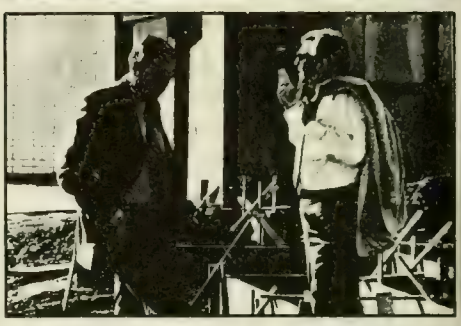
Our belief is that the subsidy portion of that concept should be delivered to the home buyer separately. Someone should make the decisions relative to subsidy other than FHA people. The subsidy should be added to the other elements of the transaction in order to make it appropriate for the loan.

Thus, I think the continuation of the 235 and 236 concept with administrative safeguards is the best program that we could follow. I continue to urge that concept for the committee.

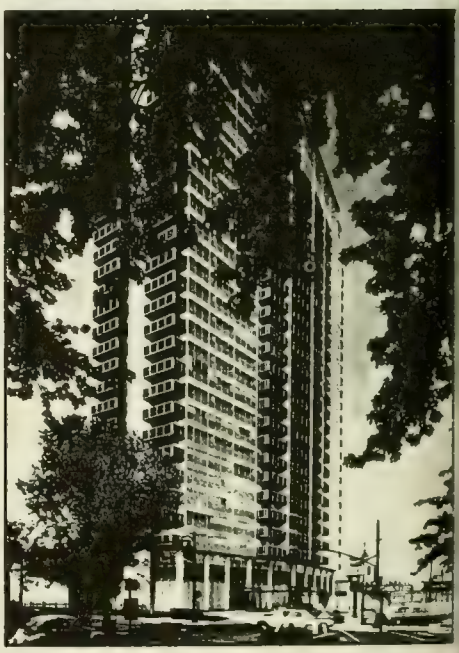
[Complete statement from the Mortgage Bankers Association follows:]

MBA









STATEMENT OF
KENNON V. ROTHCHILD
CHAIRMAN
MORTGAGE BANKERS WASHINGTON COMMITTEE
Before the
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
of the
SENATE COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS

JULY 23, 1973

MORTGAGE BANKERS ASSOCIATION OF AMERICA
MBA
ORGANIZED 1914

YOUR COMMUNITY GROWS
ON MORTGAGE FINANCE

July 23, 1973

Mr. Chairman and members of the Subcommittee, my name is Kennon V. Rothchild. I am President of H. & Val J. Rothschild, Inc., St. Paul, Minnesota, and Chairman of the Mortgage Bankers Washington Committee. Accompanying me is Mr. Lee Holmes, MBA Legislative Counsel.

We appreciate the opportunity to present our views today on matters which the Subcommittee is considering relative to the development of the Senate's 1973 housing legislation.

MORTGAGE BANKING AND FHA

Mortgage bankers are unique in the business of extending real estate credit. We do not hold mortgages as investments, but we do extend mortgage credit. We are not wedded to any specific type of property or loan, instead we originate all types of mortgage loans. Nor are we wedded to specific types of investors; we sell the mortgages we originate to all types of investors. Accordingly, we must be knowledgeable about sources of funds throughout the nation as well as the maze of regulations and practices that determine the type mortgage each distant lender is willing and legally able to purchase for his portfolio. (See Table #1)

These statements could not have been made in the early postwar years. At that time, modern mortgage banking became the vehicle used by life insurance companies to invest in home mortgages across the nation. The mortgage banker met life company requirements for local originators who would

look out for their interests during the life of the loan as well as when the loan was made. The home mortgage insured by the Federal Housing Administration under Section 203(b) of the National Housing Act met their investment requirements by assuring the maintenance of minimum property and credit standards and by insuring the investor against much of the risk of long-distance lending.

As a result, the mortgage banker was and has been the principal instrument in the growing use of FHA mortgages and in the development of a nationwide market for mortgages. In short, mortgage bankers have contributed significantly to the success of FHA's varied, complex, and, at times frustrating, programs. Mortgage bankers have been and are the principal originators of FHA mortgages. They accounted for:

PERCENT OF NUMBER OF LOANS INSURED

	1971*	1950 through 1971*
All FHA 1- to 4-Family	69.8%	55.8%
Section 203(b)	64.2	52.4
All Other 1- to 4-Family	76.3	73.2

*Latest Year Available

We feel the mortgage banker's involvement with the government's several housing programs, principally those of FHA and VA, has benefited both the industry and these programs. At the same time this involvement has made the mortgage banker vulnerable to the instabilities that have always been a part of these programs. Government administered interest rate ceilings that do not meet the market, expiring authority to

insure and variations in the implementation of administrative rulings have been traditional hazards that the mortgage banker and others have encountered when dealing with FHA and VA, however, in recent years they have occurred with greater frequency and in concert with other less manageable factors such as tight credit and rising costs.

The net effect of these difficulties can be seen in Table #2. The stability of VA program management is indicated by the relatively constant amount of business with that program. The decline in mortgage banker originated FHA single-family mortgages from the third quarter of 1971 is apparently attributable to the increasing difficulties being experienced by FHA. The dramatic increase in conventional loan originations can be attributed to the development by FNMA of their conventional secondary market program and it has now been clearly demonstrated that this program is viable. Tight credit will affect the conventional program to some degree, as it will affect other mortgage finance programs, and it is in this situation that we will see the greater need for the FHA 203(b) program.

Thus far, 1973 has provided all who deal with government housing programs a much clearer understanding of how fragile and tenuous the involvement in these programs truly is. Surely, the events of the last two or three weeks serve to create an atmosphere of urgency for the Congress and the Administration to act with deliberate speed in developing and implementing sound government housing programs.

HOUSING ACT OF 1973

Legislation before the Committee today focuses on a number of critical housing issues. The proposal to consolidate and simplify the multiplicity of programs and purposes of the National Housing Act (S. 2182) is perhaps the most significant. This legislation, a revision of S. 3248 which was passed by the Senate last year, retains the principal elements to which this Association has addressed itself before this Committee for the last several years. We continue to support many elements of this proposal. The events of the past six months, however, have necessitated some alteration in several of our previous responses relative to this proposal.

The Association still considers the consolidation and simplification of the government-insured housing programs to be a necessary step to a more efficient system of providing shelter. Similarly and with particular reference to the current rising cost of housing, a system of flexible maximum mortgage amounts appears to be far superior to the current approach of providing statutory ceilings which cannot be readily adjusted nor can they be varied to meet the needs of local markets. Additionally, the provision by which the Secretary is vested with permanent authority to prescribe maximum interest rates that meet and keep pace with this market is particularly important in view of the current crisis.

The Association does not favor the experimental dual interest

rate authority which would be established by this legislation. A free interest rate with no points may be workable under some market conditions, but it will be neither practical, nor desired by the mortgagor in today's market. Therefore, the Association feels that the experiment will not provide a valid test of the free market and mortgagees would still be faced with the problem of whether the administered rate was maintained at an appropriate level. As the Committee knows, there would be little demand for a free interest rate for government-insured or guaranteed housing programs if the Secretary merely exercised his authority in a timely fashion. The interest rate whipsawing that the FHA and VA programs commonly experience is totally unnecessary and would not be commonplace but for the fact that it all too often becomes a matter of political expediency rather than consumer need.

Mortgage bankers have given a great deal of thought to the role or roles they play in the federal government's housing delivery system and, in light of current events, the industry has concluded that either their role must change or the system must be altered if there is to be any meaningful continuing relationship with these programs. Fundamental to the industry's deliberations has been the status of FHA. We do not question that there must be both subsidized as well as unsubsidized programs available to the public, nor does the mortgage banker consider that these parallel means of providing housing are alternatives which demand a choice of participating with one or the other, but not both.

MBA's deliberations have produced the firm conviction that FHA's unsubsidized programs must be clearly severed from those which are subsidized. While much of the difficulty which FHA has experienced over the recent years can be attributed to complications in administrative red tape, we feel that it is the confusion that surrounds the management of both subsidized and unsubsidized programs by the same people has given rise to these administrative complications. It is the considered conclusion of the Association that the portion of FHA which deals with market oriented unsubsidized housing programs must be removed as far as possible from those which are subsidized--hence the MBA's position that the unsubsidized programs of FHA should be independent and free of HUD. Viewing this conclusion from another vantage point, we do not see how subsidized housing programs can ever be made to function as they should for the people they serve and be as economically sound as possible unless they are administered separately.

We strongly recommend that the unsubsidized programs embraced by Section 401 of Title IV--Home Mortgage Insurance--in the Committee's proposal be made the operating responsibility of an independent federal mortgage insurance corporation. The new independent government corporation would be governed by a board composed of government officials. The administration of the corporation should be the responsibility of a commissioner appointed by the President of the United States. All of the functions, powers, duties and responsibilities of the Secretary which are related to the standard risk insurance

programs should be transferred to and vested in this commissioner. Such powers and the responsibilities should include, but not be limited to, (1) authority to recommend to the board appropriate fees and premium charges to meet the actuarial requirements of the corporation's insurance programs, (2) authority to coordinate and contract with other government agencies, corporations and commissions for appropriate use of the corporation's services not inconsistent with its functions, (3) the requirement that the commissioner report the corporation's activities to the board, the President and the Congress on a fiscal year basis, and (4) authority to issue temporary and permanent regulations to implement the corporation's programs, administration and activities. Additionally, the affairs of the corporation should be audited annually by appropriate agencies of the United States.

With this transfer of authority must go the control and use of the Mutual Mortgage Insurance Fund which has been operated solely, since 1938, in connection with FHA operations under Section 203 of the National Housing Act. There would be no budgetary impact by this transfer of responsibility since the corporation we envision would remain a federal instrumentality. The Cooperative Management Housing Fund, insuring Section 213 cooperative projects and mortgages, could also be transferred and administered by this new corporation, as it has substantial reserves which would be adequate to finance its program.

MBA has objected to the turn Title IV would have the FHA

insurance program take since the first hearings on this legislation in 1970. The home mortgage insurance operation of FHA was patterned after that of mutual decreasing term life insurance coverage. The premium has been set high enough to cover the preassumed level of risk and meet all administrative expenses. Accumulated funds in excess of those needed to meet contingencies also accrue to the benefit of those who pay the premiums, that is, the mortgagor or borrower may receive a share of the Participating Reserve Account upon termination of the mortgage. This arrangement has had the advantage of providing FHA with sufficient income to assure a self-sustaining operation.

Section 201 of S. 2182 eliminates the entire MMI Fund, and apparently distributes its assets to the other funds. No assurance is provided that future premiums will be set with a viable mortgage insurance operation in mind. Mortgage limits, maturities, and other mortgage terms may be determined without regard to economic soundness or the encouragement of the participation of private investors. Instead of arrangements for the creation of adequate, privately-created reserves, direct access to the Treasury is provided for covering losses. The main thrust of the mortgage insurance operation thus becomes, not one of strengthening the private involvement in the government mortgage market, but one of serving subjectively determined welfare purposes. Unsubsidized FHA borrowers will be doubly taxed to support subsidized FHA borrowers by the loss of reserves when foreclosures consume more than the premiums collected and by the added tax bill for all citizens.

The General Insurance Fund and the Special Risk Fund should remain in HUD to be utilized as they are now with those programs which are essentially actuarily unsound--Sections 213, 220, 221, 231 and 232 in the General Fund and Sections 223(e), 223(a)(2), 235, 236 and 237 in the Special Risk Fund. These funds should run the course of their outstanding loans on these programs and the insurance thereon and then become straight guaranty funds, for that is in fact what they are.

We do not believe there can be a true insurance concept applied to the subsidy programs which is why the Special Risk Insurance Fund is presently operating in a deficit position as is the General Insurance Fund. The fact that assisting low-income homeowners and renters is expensive and risky has been clearly established. That does not mean that the task should not be undertaken, rather, it makes it that much more important to accomplish. It also means that we should not delude ourselves by applying insurance concepts and the other paraphenalia that apply to sound risks to the subsidized programs. This is a guarantee situation wherein the Treasury stands ready to pay. Let it be so.

The MMI Fund, particularly, is sound actuarily and financially. Since its inception in 1934, the Mutual Mortgage Insurance Program of the Federal Housing Administration--FHA's major unsubsidized program:

* insured over $100 billion in mortgage loans

* enabled moderate-income families to purchase 9 million homes
* provided shelter for 30 million people
* set property and credit standards that were emulated by the entire housing market
* paid its own cost of operation and all claims
* built an insurance reserve fund of $1.6 billion--most of which is invested in U.S. Treasury securities

All of this, and it did not cost the taxpayer a penny. It can provide enormous support during the next few years of federal housing program turmoil if it is used properly--as the basis for providing homeownership to the great middle economic segment of our homebuying public.

FNMA AMENDMENTS

The Association supports legislation (S. 1329) which would authorize FNMA to purchase conventional mortgages up to $45,000 and to increase their loan-to-value ratio from 75% to 80%. This proposal is timely and will provide much needed additional mortgage funds for homebuyers. We urge the Committee to seek its prompt passage.

MORTGAGE SETTLEMENT COSTS

MBA supports legislation which would provide an effective means of dealing with the problems in the closing and settlement area that were pointed out by the February, 1972 HUD-VA Report to the Congress on Mortgage Settlement Costs. We agree with the views expressed last year by the Federal Home Loan Bank Board that any attempt to get at these problems by means of federally imposed maximum limits on charges for settlement services is certain to be less effective and will

place an unfair burden on thousands of companies and individuals whose present charges are reasonable.

We have seen in other areas of the economy that the imposition of artifical or unreasonable limits inevitably has the effect of forcing economic and human rosources to shift into endeavors where such constraints do not exist. This may very well happen if a system of federal rate regulation as was proposed by HUD on July 4, 1972, for FHA assisted transactions, is imposed on those who provide settlement services. In the long run, this can only reduce competition for settlement services.

By attacking the underlying problems, such as the lack of consumer understanding of the nature and costs of settlement services and the existence of kickbacks or referral fees, MBA believes that settlement costs can be kept to reasonable levels without incurring the many drawbacks of having the Federal government fix the charges that can be made for settlement services.

Furthermore, any steps taken to control settlement costs must apply to all mortgage lenders, not just those involved in federally insured or guaranteed programs, in order that all borrowers are benefited.

HOME PRESERVATION ACT OF 1973

S. 971, introduced by Senator Taft, suggests a new approach to stem the tide of deterioration and abandonment of lower income housing. It may be desirable to authorize a

demonstration program of the type suggested by this proposal to establish the viability of the preservation concept.

Section 403 in S. 971 would have FHA approved mortgagees assume some or all of the functions relating to the processing and approval of applications for mortgage insurance under the several HUD-FHA programs. Determination of the functions involved and the extend of responsibility to be assumed by mortgagees would be vested in the Secretary in the form of a report on these matters to the appropriate Congressional Committees.

MBA worked with HUD on precisely this matter some months ago and developed a program which HUD now calls "Accelerated Processing." The program has been successfully operating for a year in six HUD area offices. Benefits are derived by both HUD and mortgagees and we consider the effort to be mutually beneficial.

The Association considers that greater responsibility for mortgagees involved in the government insured and guaranteed programs is appropriate. We cannot comment further on Section 403 without knowing in greater detail what the additional responsibilities might be.

While the mortgage banker is quite adaptable and not solely dependent upon specific investors or specific programs, he is very dependent upon the presence and availability of a viable federal mortgage insurance program in order to provide

the necessary security to investor's capital which is lent at long distances in these insured government programs. We doubt very much that a simple program guarantee can ever produce the nationwide market that has been developed as a result of Section 203(b) and the Mutual Mortgage Insurance Fund. The real need for a national market will be seen again in the next few months as credit tightens further and moderate income homebuyers in typically credit-surplus as well as credit-deficit areas find it impossible to purchase a home in the conventional market. It is this borrower and others with even lower incomes that the FHA 203(b) program and the mortgage banker has served over the years. We need the assurance that we can continue to serve him in the soundest and most efficient manner.

Thank you.

# # #

MORTGAGE BANKING ACTIVITY
TABLE 1

Estimates of Mortgage Loans Closed By Type of Loan
And By Type of Purchasing Investor
1972

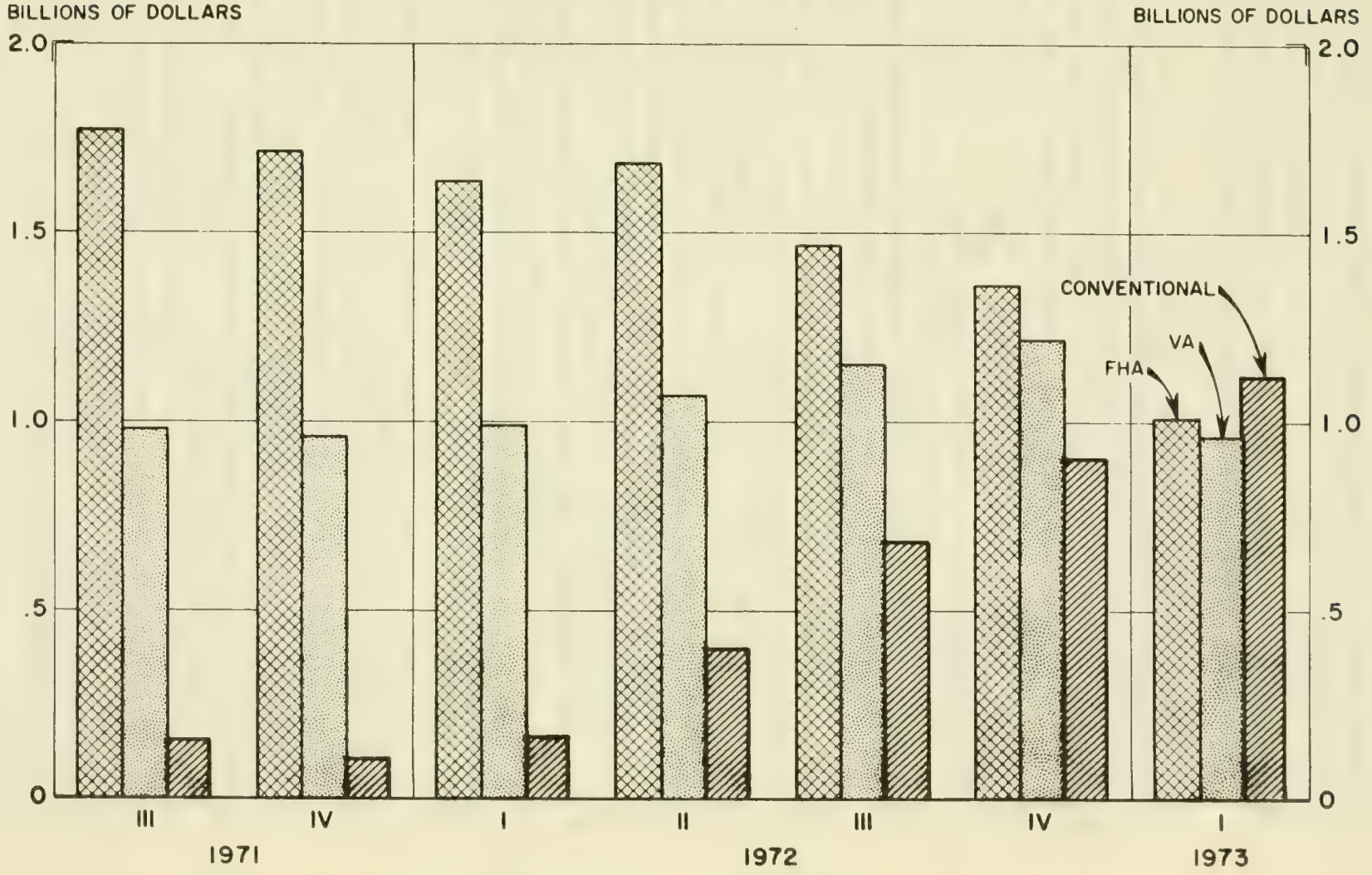
Type of Property and Type of Loan	All Types	Life Co.'s	Mutual Savings Banks	Savings and Loan Assn.	FNMA	Mtg. Pools GNMA	Others 1/
				(billions of dollars)			
Total Closed	$19.1	$3.3	$1.7	$7.6	$2.9	$2.0	$1.6
One-Family	12.6	0.2	0.9	7.0	2.0	1.9	0.6
FHA	6.1	(	(	(	(	(	(
VA	4.4	(0.2	(0.9	(5.2	(2.0	(1.9	(0.6
Conv.	2.1	(	(	1.8	(	--	(
Multifamily & Commercial	6.5	3.2	0.8	0.6	0.9	0.1	1.0
FHA Projects	1.2	(	(	(	0.9	0.1	(
Conventional, Multifamily	1.7	(3.2	(0.8	(0.6	--	--	(1.0
Nonfarm Nonresidential	3.6	(	(	(	--	--	(

1/ Includes loans purchased by commercial banks, Trusteed Funds, GNMA, MITs and REITs, state finance agency, mortgage bankers and others.

Notes: Originations by type of property are derived from MBA's monthly activity series. Estimates of purchases were made by Mr. Kidd, Associate Director of Research.
Parts may not add to totals because of rounding.

Source: MBA's Economics and Research Department.

MORTGAGE BANKERS ORIGINATE INCREASING VOLUME OF CONVENTIONAL SINGLE-FAMILY MORTGAGES



The CHAIRMAN. Well, thank you very much. We appreciate your presentation today.

Our next witness is James Scheuer, president of the National Housing Conference.

STATEMENT OF JAMES H. SCHEUER, PRESIDENT, NATIONAL HOUSING CONFERENCE; ACOMPANIED BY A. N. PROTHRO

The CHAIRMAN. It is good to see you, sir.

Mr. SCHEUER. I have with me Mr. A. N. Prothro who has been associated with FHA for 34 years and has been General Counsel of FHA and is formally associated with the National Housing Conference. I have provided staff with some resolutions of the National Housing Conference which I would be grateful to have printed in the record.

The CHAIRMAN. It will be done (see p. 791).

Mr. SCHEUER. I have another detailed statement and a seven-page synopsis of my statement which I would also like to have printed in the record and then I will speak even more briefly than that.

The CHAIRMAN. We would be very glad to put your whole statement or statements in the record (see p. 765).

Mr. SCHEUER. Thank you, Senator. I will speak very briefly. First of all may I make it clear that the National Housing Conference supports strongly provisions of S. 1744 and S. 2182. They have been endorsed by the membership of the National Housing Conference and by the legislative policy and resolution committee and the board of directors. We share your concern that we should have a housing program that establishes national goals and objectives.

We are concerned that the administration's Better Communities Act has no link to the housing needs of the Nation and includes no provisions for a community to borrow money at reasonable rates to carry out very costly development programs such as urban renewal and other programs.

There is no provision in the administration bill for directing funds to meet national objectives defined by Congress and defined by the administration. We have met on several occasions with the Secretary of HUD and with his top staff associates. They are going to come up with some recommendations on September 7. The Secretary of HUD is a highly intelligent individual. I have hopes that they are going to come up with constructive and useful suggestions.

I also hope that your committee in the meantime will be doing its thing in formulating the kind of legislation that is embraced by 1744 and 2182. We believe that 1744 preserves the integrity of national goals and programs for community development that have been established by Congress in many pieces of legislation since the passage of the historic Housing Act of 1949. We believe that that should continue.

We believe there is a proper role for the executive branch and legislative branch of Government in devising national goals and objectives and devising specific legislative programs, and in the case of the executive branch in implementing them and in the case of legislative branch in providing proper oversight.

We do believe that the concept of the block grant is a useful one and provides opportunity for decisive simplification and acceleration of programs. We also believe in local responsibility and local initiative within nationally established guidelines and policies.

We believe that where there are Federal funds needed to attack national problems such as slums and community development, then Congress and the administration must define national goals and national policies and produce national housing guidelines.

We are concerned about the moratorium, about the suspensions, about the impoundments, about the program terminations. We don't believe that programs can or should be lightly turned on and off. When that happens it produces serious breakdowns in productivity and confidence.

We are concerned also with the need for spending Federal money on housing. There is no way, considering the present costs of land and present costs of money, the present costs of construction and the present costs of operations, to build cheap housing, and until we achieve some spectacular breakthrough, in perhaps several of these directions, housing is going to have a legitimate claim on the National Treasury.

We have heard some criticism of the so-called housing scandals. We have had housing scandals in the last 20 or so years that I have been familiar with—in Democratic and Republican administrations. The scandals that we have heard about recently have been primarily in the nonsubsidized programs, strangely enough, and this has been documented most recently by Henry Schechter, the senior specialist in housing of the Congressional Research Service. I don't think an occasional wrongdoing or occasional inefficiency which have been endemic to these housing programs for the generation that we have had them should blind us to the need for continuing the programs, improving them, strengthening them, working out the kinks.

Where there are basic flaws we can remove them, by rethinking them through, and by applying what we have learned from experience—but not by pouring the baby down the drain with the bath water.

One particular problem that has plagued low-income housing, public housing, and assisted housing is the problem of the multiproblem family. We have not learned in this country very well how to manage the problem of the multiproblem family. We have been perplexed as to how to educate children from these families; we have been perplexed as to how the welfare program and housing programs have worked. We had not envisaged a generation ago that we would have three- and four-generation multiproblem families on welfare and in public housing. But these programs have not been created by the housing programs or by our education programs or by a welfare program; to a large extent they have been uncovered and revealed by our housing programs.

Our fine housing programs that over a generation have provided decent and safe residential dwelling units should not be labeled as failures because of the fact that they have largely uncovered problems that society has not been able to cope with very successfully in the past.

One problem that has not been dealt with effectively by the legislative or executive branch is the problem of security—physical secu-

rity—that is plaguing communities across the country. Entire neighborhoods and projects are being torn down because people are fearful for their personal security and their lives. Vandalism, muggings, and ripoffs are a daily occurrence.

Residents are calling for tearing down or blowing up of projects and they are running away from them because of the fear for their safety.

Now, HUD has done good work—demonstrations and so on—in the area of security. So has the Department of Justice through their National Institute of Law Enforcement and Criminal Justice. The research arm of the Department of Justice which was created 4 or 5 years ago and which I sponsored as a Member of the House of Representatives has been doing work in this area. I think in giving credit to HUD and to the Justice Department, it is fair to say that now is the time to put into the stream of commerce the information and technology and systematic application of knowledge which they have developed.

Let me show you a manual prepared for HUD, at HUD's expense, entitled "Immediate Measures for Improving Security in Existing Residential Areas," done by Oscar Newman, president of the Center for the Principal Space Design in New York City.

In the preface he mentions this manual was prepared with funds provided by HUD. The research upon this work is funded by the National Institute of Law Enforcement and Criminal Justice of the U.S. Department of Justice and the Criminal Justice Coordinating Council of the city of New York.

This very excellent manual gives detailed instructions on the various means of improving security in existing residential developments by the application of hardware, security personnel, electronic equipment, and modification of grounds. I want to congratulate HUD for having done this and I want to congratulate the Department of Justice for having made its contribution.

May I also show the committee a draft for minimum building security guidelines developed by the Department of Justice, also; and draft of minimum security guidelines for elderly housing, also developed by the Department of Justice. They include substantially the same approach that is in the HUD study.

That is, the application of science and technology in terms of locks, alarms, communication devices, modification of ground-floor space within the building, modification of ground-floor space outside of the building. I believe it is time that Congress provided funding to make these security programs that have been developed very soundly and thoughtfully by HUD and the Department of Justice a reality for people in the country.

We have codes in our cities that govern the construction of all housing and certainly including Government-assisted housing; codes that are related to fire and health. I think it is an outrage and a shame that virtually no Government agencies have mandated that new housing live up to these security minimums just as we require them to live up to certain health and fire minimums.

Now, at least two cities have adopted the Department of Justice guidelines for minimum security requirements for new housing: the city of Oakland, Calif.; and the city of Los Angeles. I would hope that in your legislation you would provide both funding for the

application of these various security measures to existing housing, and also require that in the MPR's—minimum property requirements—that FHA applies as minimum standards for new housing, in addition to health standards and fire standards and so on, the very standards that they have developed in this very thoughtful and excellent HUD study. And that the standards the Justice Department has developed through the National Institute of Law Enforcement and Criminal Justice, for housing generally, and housing designed for the elderly, would be included.

I want to commend Senator Williams; I am sorry he isn't here today, for his Housing Security Act of 1973, S. 2180, which does provide funding to apply many of these developments that HUD has produced. One thing the Senator's act doesn't do is to require that the minimum standards produced both by the HUD and Justice Department's study should be built into the FHA minimum property requirements and I hope to have a chance to testify and recommend that that be added to Senator Williams' very excellent bill to provide for increased security and protection for certain federally related housing projects.

Senator, let me congratulate you and your committee for the great service that you have rendered the American people; for your willingness to deliberate, to evaluate, to change as circumstances indicate that we should change programs, and to be challenged. I believe you have a right to be very proud of the legislation that this subcommittee has produced.

Experience has certainly proven that changes and improvements can be made. It certainly indicates that some of the programs that we started a generation ago had flaws like most human endeavors. These programs were not perfect, they didn't spring from the heavens. Of course, they can be improved; of course they can be refined; of course they can be strengthened. This is the challenge that faces our country, not decimating the programs but enhancing them and protecting them and strengthening them and I congratulate you and your committee on the diligent and imaginative way in which you have approached that challenge.

The CHAIRMAN. Thank you very much. You have mentioned Senator Williams' bill. Of course that is before us in these hearings. I shall make it a point to tell him of your good words that you have said about it. Let me say that—of course, I am familiar with the organization that you represent. I believe I have met with it every year for maybe a quarter of a century, I am not sure. It has been a long, long time.

Mr. SCHEUER. That is absolutely correct. I didn't know whether that figure of years would embarrass you, Senator, that is the reason I did not mention it. But it is true that you have played a towering leadership role in our housing legislation for a quarter of a century and that the National Housing Conference has had the kindest of relations with you, formal and informal, and we are very much in your debt for the years of assistance you have given us.

The CHAIRMAN. I can assure you it would not embarrass me because I have been actively associated with this subcommittee now for 26 years. I came on in January of 1947. I have enjoyed the work; I like very much what you have had to say about the need of recognizing

that a piece of legislation in the field of housing is not necessarily perfect when it is put on the statute books.

It is true, as a matter of fact, I am sure you know, that every year we reviewed the housing programs in this subcommittee and full committee, also, and studied them to see if they are performing as we had hoped they would perform when we wrote them into law.

We recognize the fact that they need changes from time to time and we proceed on that basis. Every year we review them, prepare new legislation, make changes, write new programs where we think the programs will work, but also eager to find out if there is any weakness that we can correct. I think that that is the only way to go about it. I like to go back over the different acts that we have been successful in putting on the statute books and I like to refer to the bill last year that we put through the Senate which I think was an excellent bill.

Mr. SCHEUER. It was indeed, it is a shame that the House never got around to passing it.

The CHAIRMAN. I am sorry that the House did not complete action on it, I thought it was a very fine piece of legislation.

Mr. SCHEUER. That is right, Mr. Chairman.

The CHAIRMAN. I remember the first housing bill that I handled on the Senate floor was the act of 1949 which I consider as a basic postwar housing act.

Mr. SCHEUER. It was the daddy of them all.

The CHAIRMAN. That is the one that stated the housing policy.

Mr. SCHEUER. A decent home and a suitable living environment; yes.

The CHAIRMAN. Of course, as you know, one of your friends, in New York, Senator Wagner, was one of the authors of that; Senator Ellender was one; Senator Taft, whose son by the way is a very highly valued member of this committee and of this subcommittee. I point, as you did in your statement, to the pledge that we made to the American people that every American family might have an opportunity to have a home, decent, safe, and sanitary home in good surroundings. I believe we have tried to hold to that pledge.

As a consequence when we do have these annual reviews, and nearly always annual legislation in order to develop programs in the most practical way to make it possible for all American families to have that opportunity. We surely appreciate the presentation that you have given us, and the help that you and your organization have given throughout the years. Thank you very much.

Mr. SCHEUER. Thank you, Senator.

[Complete statement of National Housing Conference, Inc., follows:]

STATEMENT BY JAMES H. SCHEUER
President of The National Housing Conference
before the Subcommittee on Housing and Urban Affairs of the
Senate Committee on Banking, Housing and Urban Affairs
July 23, 1973

I welcome the opportunity to present the views of the National Housing Conference on the important legislative proposals on housing and community development which are pending before this Subcommittee. I will address my remarks to S 2182, the Housing Act of 1973; S 1743, Better Communities Act; and S 1744, Community Assistance Act of 1973. At a later date we will submit a statement with our views concerning other bills before this Committee; also, our later statement will cover certain changes embodied in S 2182 which were not a part of the bill that passed the Senate last year, S 3248.

1. PRESIDENTIAL SUSPENSIONS AND IMPOUNDMENTS OF HOUSING FUNDS--FORMULA FOR DISASTER

The President has ordered the Secretary of Housing and Urban Development to suspend its community-development and assisted-housing programs. Quite apart from the serious Constitutional questions raised by this action, the President is creating serious problems which will lead to new urban crises in the future, increased inflation, and eventual recession.

If the President's program cuts are allowed to stand, HUD-assisted housing commitments will be reduced 629,000 units in the next 18 months. The loss in total expenditures from those projected will be $27 billion--most of it in private funds. On top of that, employment will drop by three million man years. And this is only part of the effect of the President's impoundment of funds totalling $860 million of funds and contract authority in HUD programs and $940 million in rural housing and development programs. In addition, every HUD-assisted housing program and every HUD grant program is either suspended or terminated -- 9 of them on January 5, 1973 and the other 6 on June 30, 1973.

With this action to cut off housing assistance for those in low and moderate income groups, the pipeline of previously committed housing starts will have virtually dried up by mid-1974. Filling the pipeline again to the point where all of the projects needed have been re-initiated and processed to the point of construction starts will take another 18 months. As a result, the housing industry-often the bellwether of the nation's economic health--is due for extremely lean years between mid-1974 and 1976. Economists point to this factor alone as very likely to trigger a national recession before the middle of next year.

Six million assisted housing units were set as the goal in the Housing and Urban Development Act of 1968. Now, six years later, only 1,680,000 units have been built or started. Yet, the President evidently relied on the existence of those units as a basis for his assertion that Americans are better housed than ever before in history.

If the President should need proof of the major need for the remaining 4.4 million units promised by the Housing Act, he does not need to look far. He will find it in rotting neighborhoods within a short walk of the White House itself--and in every major city in this land.

With the President's impoundment of funds, people of low and moderate income will be denied decent housing they otherwise could have had with HUD's assistance. With this arbitrary reversal of the Federal Government's commitments, legitimate expectations of such people are again being grievously frustrated. No doubt the feeling that they are being ill used by an uncaring Administration will be sharpened when their rents, now uncontrolled, go up on the unsatisfactory units

they now occupy--for such inflation in their living costs is virtually guaranteed by the President's action to limit available housing. That these factors will lead to new explosions in our cities seems foregone.

Nor is this sudden and arbitrary cut-off of funds any less serious at the other end of the housing production line. Numerous groups, including churches, labor unions, and others, have been encouraged by the law and HUD officials to invest substantially in assisted-housing projects.

Speaking before the National Housing Conference a short time ago, Senator John J. Sparkman, Chairman of this Committee, noted that one church group faced a possible loss of $250,000 as a result of the President's action. "Commitments and promises," he said, "whether oral or written, should be no less honored by government than they are by individuals." It is too bad the government must be so reminded.

Yet, despite all the heavy social and economic costs described above, the President's cuts of funds supporting HUD assisted-housing programs will "save" less than $925 million in annual assistance commitments for housing during the next 18 months.

While serious charges have been leveled at HUD's programs, most are false and seem clearly motivated by budget-cutting considerations. Contrary to the Administration's charges, the programs directly involved in the cut-off have generally been effective in serving the needs of the income groups they were intended to help.

Evidence is overwhelming that those problems which do exist stem from maladministration of the law--not from the design of the law itself. Correction of such maladministration is the President's duty -- or, failing that, recommending an orderly transition to new programs to Congress. Unilateral repeal of laws on which malfunctioning programs are based is <u>not</u> the President's duty--nor even his right.

Under the Constitution, the President has never had the power to effectively frustrate the will of Congress by suspending and terminating programs required by law and refusing to spend Congressionally appropriated funds essential to the support of such programs. To the contrary, the Constitution charges the President to "take care that the laws be faithfully executed." And he is sworn so to do.

In confirmation, William N. Rehnquist, then the President's Assistant Attorney General and now a Supreme Court Justice, said in 1969, "With respect to the suggestion that the President has a constitutional power to decline to spend appropriated funds, we must conclude that existence of such a broad power is supported by neither reason nor precedent."

Proposed legislation is now under consideration in Congress which will effectively prevent Presidential action to execute major shifts in national policy by executive fiat. Such legislation will require the President to notify Congress of impoundment actions and to forestall implementation of such action unless Congress affirms it within 60 days.

In introducing such legislation, Senator Sam Ervin, Jr., said, "Impoundment amounts to government by decree, and if the practice is permitted, the collective voice of 535 members of Congress could be overridden by one man...That would be government without law." It is hardly a point for dispute.

2. CONTINUANCE OF HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS DURING TRANSITION PERIOD

Contrary to the President's assertion that the urban crisis has passed, America's cities continue to be in a struggle for survival. Even though many dollars have been spent, the decay of decades, and the failure to take adequate

action which will improve the quality of American life, have taken their toll. While inner-city people continue to be ill-housed and live in despair and disillusionment, the suburbs gain in affluence. The need for decent housing, community services, and a pollution-free environment continues to be at the heart of our urban crisis.

We must take vigorous and immediate action toward achieving our goal of providing good homes and good neighborhoods for all who are ill-housed. It is not enough to build new housing or rehabilitate existing housing. We must also assure that the housing is in a suitable living environment. At the same time, there must be an expansion of educational and social programs and other community services for the people to eliminate the causes of inner-city decay and decadence.

Existing housing and community development programs should be continued during the period of transition until modified housing programs or special revenue sharing community development programs are made effective. This is necessary to keep faith with public agencies and private citizens who made their plans and investments in reliance upon existing laws which have long been a part of Federal assistance programs. These programs should not be suspended or terminated until action is taken to repeal or modify these laws and until authorized alternative or modified programs begin.

The new and modified programs ultimately enacted can be effectively initiated only if there is an orderly transition from continuing existing programs. This would give time for the development of procedures and guidelines for their administration. Meanwhile the present programs could continue to serve the needs of our cities and towns and -- as they have in the past contrary to

unsubstantiated charges of the Administration -- the needs of low and moderate income families. The housing industry would be able to make the transition to the new programs, without the convulsions to its productive capacity which the suspensions are creating.

The Presidential suspensions and impoundments will have an adverse and serious impact on the economy and the Nation in both Fiscal 1973 and 1974. However, the most disastrous effect will occur in Fiscal 1975, starting the middle of next year. There is a time lag in a typical project of as much as 18 months from the initiation of a project to the start of construction. The housing starts for Fiscal 1973 and 1974 will use up the pipeline of projects previously initiated and committed. By Fiscal 1975, there will be no pipeline of previously committed projects. Even with the present productive capacity to initiate and develop projects, it would then take about 18 months to get projects to the start of construction. However, if all HUD-assisted programs continue to be suspended, there will be a destruction of that productive capacity which is now initiating HUD-assisted housing. Then we will be unable to achieve housing starts for an even longer period following the lifting of a moratorium and the effective date of modified or alternative housing programs.

We urge that Congress take such steps as are necessary to reassert its constitutional legislative powers and responsibilities and to protect, from Executive nullification, legislation which it has enacted, such as the housing and community development programs initiated over the last four decades. Accordingly, we recommend that the following Amendment be added to the Housing Bill of 1973:

AMENDMENT TO RELEASE HOUSING IMPOUNDMENTS

PART I. Housing assistance programs under Department of Housing and Urban Development.

Sec. The Secretary of Housing and Urban Development shall immediately cease any suspension of Federal housing assistance programs, or any withholding of funds for such programs, and shall carry out such programs in the current and each succeeding fiscal year to the full extent possible pursuant to the contract authority or other funds appropriated or otherwise authorized or made available by the Congress for such programs in each such fiscal year.

Sec. The Secretary, in carrying out his responsibilities under this Act, shall not withhold or delay the approval of applications for contracts under the Federal housing assistance programs, the entry into contracts under such programs, or the expenditure of funds appropriated for such programs. He further shall take no action which effectively precludes or delays the approval of applications for contracts for such programs, the entry into contracts for such programs, or the expenditure of funds appropriated for such programs.

Sec. "Federal housing assistance programs" means the programs established under section 235 and section 236 of the National Housing Act, section 101 of the Housing and Urban Development Act of 1965, title IV of the Housing Act of 1950, and the United States Housing Act of 1937. For purposes of this Bill, Federal housing assistance programs shall also include loans entered into under section 312 of the Housing Act of 1964.

PART II. Rural housing programs under Department of Agriculture.

Sec. Section 517(c) of title V of the Housing Act of 1949 (42 U.S.C. 1487(c)) is amended by (1) striking out the word "may" and inserting in lieu thereof the word "shall"; and (2) inserting before the period at the end of the sentence a comma, and the words "in the amounts specified in the appropriations Acts for that purpose: Provided, That not less than 60 per centum of such loans in the aggregate be made at the reduced rates provided for under section 521 of this title".

Sec. Section 516(a) of title V of the Housing Act of 1949 (42 U.S.C. 1486(a)) is amended by striking out the words "is authorized to" and inserting in lieu thereof the words "shall, in the amounts specified in the appropriations Acts for that purpose,".

This Amendment would direct the HUD Secretary to release unutilized contract authority for HUD-assisted housing programs. This includes those already authorized and appropriated by Congress for the home ownership assistance program, the rental housing assistance programs, and the rent supplement program. The release of this contract authority -- some $440 million of commitments for payments per annum -- should enable the programs to continue until modified programs become effective.

It is imperative that these funds already made available be utilized. Assuming that the housing bill is passed late this year or next year, there will be a long time lag before the modified programs are effectively implemented and operative. Therefore, it is imperative that HUD and FmHA be instructed by Congress to continue the current programs until new programs are fully operational.

3. RELIEF OF HARDSHIPS CAUSED BY IMPOUNDMENTS, SUSPENSIONS, AND TERMINATIONS

The precipitous action of the President in impounding appropriated funds and contract authority and suspending or terminating programs should not be retroactive on pending plans, applications, and projects of intended participants under the HUD-assisted programs which were suspended or terminated on the dates listed above.

It would be most unjust and inequitable to deny further participation in these programs which have long been a part of Federal legislation and which have been relied upon by private citizens or public agencies who acted in good faith, often with assurances or encouragement from the Federal officials administering the programs. To avoid serious difficulties which would result, with

large losses to the parties involved and hardships to the consumers, we recommend that -- pending enactment of the anti-impoundment amendment -- the Committee call upon the Administration to issue commitments for subsidy assistance to fulfill program commitments or relieve hardships on assisted housing projects, urban renewal and other community development projects. Our resolutions cite a long list of cases that demonstrate the kinds of hardships and difficulties that will result unless such relief is granted.

4. EXISTING HOUSING PROGRAMS HAVE BEEN A SUCCESS

Prior to these hearings, NHC reviewed the success of the subsidized housing programs. This was done in response to the unwarranted criticism of these programs and the failure of HUD to respond to such criticism.

NHC has found that most of the complaints and criticisms about HUD programs did not involve new construction or rehabilitation of housing under Section 235 or 236. From its review of the 235 and 236 programs, NHC has concluded that they have generally been effective in meeting their objectives and that their continuance is imperative to provide housing which is urgently needed by those of moderate incomes.

NHC is pleased that its conclusions were verified on November 9, 1972, by a release of a comprehensive study by the Real Estate Research Corporation. This study concluded that since 1968, the housing subsidy programs have generally met four of the objectives established by Congress: meeting the physical housing needs of urban low and moderate income households; encouraging home ownership; stimulating the economy through greater housing production; and increasing the

supply of decent housing. However, they have been only partly effective in serving two other primary objectives: meeting the financial needs of urban low and moderate income households and improving deteriorating neighborhoods.

NHC agrees with many of the findings of the study by the Real Estate Research Corporation, which are summarized below:

(a) Based on an analysis of seventeen existing and two proposed new forms of housing assistance, the study demonstrated that the Sections 235 and 236 new construction programs and certain rehabilitation programs are the most effective in both meeting Congressional subsidy objectives and conforming to other criteria of desirability, such as low annual budgetary cost per unit.

(b) The study found that the Section 235 and 236 basic designs were sound, although some modifications (recommended in the Report) can improve them. The major inadequacies so far have stemmed mainly from either poor administration by the Department of Housing and Urban Development or from the inherently higher risks of investing capital in housing for relatively low income households in relatively deteriorated areas.

(c) As also concluded in the NHC Report, the Real Estate Research Corporation's study found that the often drawn conclusion that existing subsidy programs are failing or generally are ineffective is based upon three errors frequently made by critics: (1) These critics either focus solely on deficiencies of the programs and ignore their benefits. (2) These critics fail to recognize that

any program designed to serve multiple objectives will logically be ineffective in achieving some of those objectives because there are inconsistencies among objectives. (3) These critics use performance standards for non-subsidized housing creation (such as default rates) to evaluate subsidy programs, even though the subsidy programs must cope with major social problems not typically present in non-subsidy programs. Those problems include poverty, deteriorated neighborhood surroundings and accommodating destructive households. These programs must not only provide housing but they must also bear large "excess burdens" of coping with major social problems. This extra burden distorts the success of providing safe and decent housing -- not because of any inherent deficiencies in the programs, but because of society's failure to cope with social problems in more direct ways.

(d) While defaults on FHA insured homes in the inner-city portions of a few cities have risen sharply in the past two years, yet -- contrary to both HUD statements and many news reports -- most have not involved directly subsidized units such as 235 and 236. Rather, they occurred on non-subsidized loans -- such as 221(d)(2) -- made under legal provisions that allow extremely low downpayments, acceptance of marginal credit risks, or location in declining neighborhoods. Default and foreclosure rates on both Section 235 and 236 new construction programs have been such that well over ninety percent of all units so subsidized have encountered no serous financial problems so far. Moreover, at the end of 1971, the fifteen cities with the highest default rates under home ownership programs contained over sixty percent of all such defaults; so, default rates were relatively low in most other areas.

This study reaffirms NHC's earlier statements that the Section 235 and 236 programs are a success and that they must be continued at the levels of production recommended in this statement.

5. ADDITIONAL AUTHORIZATIONS FOR ASSISTED HOUSING

Congress in the 1968 Housing and Urban Development Act declared that "the highest priority and emphasis should be given to meeting the housing needs of those families for which the national goal has not become a reality." Since then, there has been a steady deterioration of that priority.

By the President's unilateral action in stopping the housing programs, he has obviously relegated assisted-housing programs to a low order of importance within the budget. This action represents a major decision of national policy concerning the priorities which should be followed in allocating Federal funds and resources for commitment and expenditures within the budget. Surely this is a matter which has so great an impact upon the Nation that it must be determined not by the Executive Branch alone, but by action by Congress as well, through Federal legislation.

To fulfill the high priority for assisted housing which is still a part of our Federal laws, the first imperative for meeting our housing goals is full funding and full use of all authorizations contained in the housing laws. We urge that Congress move quickly to enact the authorizations in the Housing Act of 1973, S 2182, for our present housing programs since there are no authorizations available for public housing and (except for carry-overs) for Sections 235, 236, and Rent Supplements.

6. NHC SUPPORTS HOUSING ACT OF 1973, S 2182, WITH AMENDMENTS

NHC supports S 2182 with the amendments recommended in this Statement under applicable headings. The Bill will consolidate, simplify, and improve existing housing legislation. It achieves a complete overhaul of legislation involving the FHA mortgage insurance program initiated in 1934, the public housing program initiated in 1937 and all other legislation since that time relative to housing and housing assistance.

This consolidation and simplification program is long overdue. It will establish uniform policies which will replace present differences between programs which have separate income limits, construction and design standards, income definitions, and ratios between income and required housing payments. It provides a uniform and flexible housing formula to serve families who cannot afford the cost of housing on the private market. It will help to promote a policy of economic integration in assisted housing to discourage the segregation of low income families in housing projects.

NHC supports an authorization for counseling and related social services, as these are necessary to help cope with the social problems that are typically present in subsidized housing. These expenditures help to create better communities. They eliminate difficulties that are more costly than the preventive measures involved in counseling and social services.

We note that Section 9 of S 2182 (pg. 15-20) contains new provisions for block grants for housing. These provisions for allocation of housing assistance appropriations raise serious questions concerning their effect on the achievement of national goals and policies for housing. At a later date we will submit a statement concerning our views on these provisions on block grants for housing -- and the shift to taxable bonds on public housing -- after we have had an opportunity to carefully consider this matter.

7. HOUSING PROGRAM TO MEET ALL NEEDS AND ACHIEVE ECONOMIC INTEGRATION

We are pleased to note that Section 502(e) of S. 2182 provides that the Secretary shall seek to assure that in each assisted project there is a reasonable range in the income levels of tenants. Moreover, the Bill provides for a uniform and flexible housing assistance formula which will make it possible to serve a cross section of all families who cannot afford the cost of housing on the private market.

We believe that economically integrated housing developments are a key factor in achieving sound and wholesome communities -- not just housing. We should stop the present segregation of a stratified low-income group in assisted housing, as this concentrates families with problems and creates unhealthy communities. Both in the selection of initial occupants and their continuance in residence, the community should be protected by excluding or evicting the so-called multi problem families where there is a clear pattern of serious criminal and anti-social activity and community disturbances, and whose presence jeopardizes achieving secure and peaceful communities.

In an interest-assisted project, a cross-section of moderate income families will include people who are largely self-supporting but need some help in obtaining decent housing. It will include people with upward mobility who will provide leadership in developing good and stable communities.

The amount of subsidy allocated for an assisted housing development should be based upon making dwelling units available to a cross-section of income groups, as follows:

(1) Up to 20% for occupancy by families or persons whose incomes are

much below the maximum income limits and who require subsidies at or above the amounts which have been available for rent supplements and public housing.

(ii) Up to 20% for occupancy by families or persons who would not be subject to an income limit.

(iii) The 60% remainder for occupancy by families or persons who are at or below the median or higher income limit established by the Secretary and who require subsidies in the form of interest assistance to cover their interest and the FHA insurance premium.

Through the foregoing program, it would be possible to achieve economic integration on new projects during tenant or resident selection for initial occupancy. There would be a periodic re-examination of income only for occupants who are paying less than the maximum established charge. If their income increased, they would make housing payments on the larger income, but not more than the maximum established charge.

8. INCOME LIMITS

We concur in the recommendation of the Administration last year that the income limit for assisted housing should be the median income in that area, with authority in the Secretary to exceed the median by the amount required in order to meet the housing needs of the locality based on its income and cost factors. We recommend that the provision in S. 2182 be amended to provide for an income limit equal to the median in the area. This is necessary to facilitate the economic integration required by the Bill.

An unrealistically low income ceiling does not reduce the Government's expenditures for housing assistance, because the legislative formulas require an assisted family to pay a certain percentage of its income for rent. Experience

shows that it is not sound housing policy to establish such low income ceilings that projects are largely limited to the poorer families. Better and more stable communities are created when occupancy is permitted for a broader cross-section of the moderate income group. The lower income limits create a gap of unfilled housing need which discriminates against families who are largely self-supporting but need some help in obtaining decent housing.

The past practice of committing maximum subsidies has resulted in unused contract authority because the commitment was based upon the maximum amount needed for everyone. Several years ago, the Senate Committee recognized the undesirability of pursuing this practice. The commitment of contract authority should be based on the estimated need based on serving a cross-section of income groups. There should be a national reserve of a reasonable amount of contract authority for commitments to meet over-runs in subsidies above the estimates.

The program we recommend would make housing available to families of all incomes. There would be no gaps or areas of unmet needs in our housing programs. Each family whose income is too low to obtain decent housing would receive the amount of assistance it needs to get such housing. We must reach the unserved income group below the level now eligible for public housing or rent supplements. Likewise, we must avoid a gap or area of unmet need above the level now eligible for moderate income private housing assisted with federal interest subsidies or below-market interest rates.

9. CONSUMER PROTECTIONS TO AVOID PAST ABUSES

Too little attention has been given to the protection of consumers in housing programs. Present laws do not give them enough protections. That is

one of the reasons that defects have been found in some homes on which HUD insured mortgages, particularly existing houses insured under Section 221(d)(2) without subsidies.

At a time when we are consolidating and improving our housing laws, we must give first priority to providing consumer protections which will avoid past abuses and difficulties in the HUD programs. In part, these difficulties have been due to lax administration of our housing laws, but they are also partly due to inadequate consumer protections in existing laws. We need legislation which will require that all housing constructed with HUD mortgage insurance or assistance must be of good quality and that the prices and rents must be reasonable.

We recommend amendments to S. 2182 to require that all housing constructed with HUD mortgage insurance or assistance must be of good quality. Before insuring a loan on existing housing, HUD should, by inspection, determine that the property meets all state and local requirements related to public health or safety and that there are no defects seriously affecting use and livability. A warranty from the builder should be required that new or rehabilitated housing is constructed or rehabilitated in substantial conformity with the plans and specifications on which HUD based its valuation. On housing approved for mortgage insurance prior to the beginning of construction or rehabilitation, we are pleased that S. 2182 authorizes HUD to make expenditures to correct structural defects that later develop if the builder fails to do so as required by the warranty.

These provisions and amendments of S. 2182 will avoid past difficulties and abuses. They will protect the consumer against defects in housing and assure their correction if they occur.

10. OPERATING SUBSIDIES FOR PUBLIC HOUSING

The suspension of HUD-assisted housing programs did not apply to the payment of operating subsidies to meet deficits in public housing projects. The President's budget contemplates the payment of $350 million of operating subsidies for Fiscal 1973, but it reduces this amount to $280 million for Fiscal 1974. We are pleased to note that Section 9(c) under Public Housing of S. 2182 (pg. 139) increases the ceiling on contracts for annual contributions to $350 million. Under present conditions in public housing, we believe this ceiling is too low and would recommend that it be increased to $500 million.

These operating subsidies are necessary to offset the loss of rental income in public housing which has resulted from the Federal statutory limit -- the Brooke Amendment -- placed on the percentage of gross income to be paid by the tenants of public housing units. The Federal Government is committed to make these payments under contracts made by it pursuant to Federal laws. Sufficient operating subsidies should be provided to every public housing agency to cover:

(a) adjustments for inflation;

(b) reimbursement for losses on welfare families and others whose rentals were reduced by the limitations in the Brooke Amendment;

(c) establishment of adequate operating reserves which should be at a level -- approved by HUD in the past -- which would equal 50% of the operating budget for routine expenses of the housing authority; such increase in the operating reserves to be achieved over a period of 5 years;

(d) payments in lieu of local taxes of 10% of shelter rents including the operating subsidies which offset reductions in such rents required by the Brooke Amendment;

(e) deferred maintenance, modernization, and tenant services.

All funds authorized for operating subsidies should be promptly released. There should be forward disbursements in a manner to assure that the operating

subsidies are received by every local public agency in time to meet its payroll and bills and to fulfill its obligations as they become due. Moreover, the required amounts of subsidies should be determined in a realistic manner, taking into account present price and pay levels and operating costs.

11. IMPROVEMENTS IN PUBLIC HOUSING PROGRAM

We recommend the following amendments in public housing laws -- together with the full payment of operating subsidies as urged above -- to avoid the bankruptcy of local housing authorities and to restore their financial stability:

The total rents in all of the housing projects of a local housing authority should represent 20% of the total net income of all its tenants. Housing authorities should have local autonomy to establish graded rents for different families to meet this requirements.

Welfare programs should be required to pay rents of welfare tenants in public housing in an amount which is not less than the operating costs attributable to the dwelling based on the operating cost experience with all of the public housing administered by a local housing authority. Welfare programs shall be required to pay an additional amount to cover the difference between the required rent under existing formulas and such current operating expenses.

To the maximum extent possible, each housing authority should be required to have families in their projects which will serve a cross-section of income levels within the low income range. At least 20% of the units should be occupied by very low income families.

Over-income families should be permitted to continue in occupancy, provided that they pay 25% of their net income as rent up to the market rent as a maximum. If people feel that they are permanent residents of a housing development, they will take better care of it. As a matter of public policy, it is vitally important to achieve greater stability in housing communities and their economic integration.

There should be a coordinated program between HEW and HUD to achieve the foregoing objectives concerning the payment of rents of welfare renants who live in public housing, along with such necessary adjustments as may be required by law.

The foregoing amendments are intended to help restore the financial stability of local housing authorities by increasing their income from projects along with obtaining sufficient annual contributions for operating subsidies as recommended above.

We note that the same objective is contemplated by Section 3 under Public Housing (pg. 111-113) which provides that the minimum rental for any dwelling in public housing will be 40% of the operating cost attributable to the dwelling, including the cost of project supplied utilities. At a later date we will submit a statement stating our views concerning this alternative amendment after we have an opportunity to give careful consideration to this matter.

12. HOUSING ALLOWANCE PROGRAM IS NOT AN ACCEPTABLE SUBSTITUTE

HUD has activated an experimental program under the 1970 Act to determine the feasibility of a Housing Allowance Program. We urge that this program involve explorations to determine whether federal housing allowances will add to the inadequate supply of standard housing and whether adequate housing can be provided at a cost which does not exceed the cost under existing programs. We are also concerned about federal housing allowances inflating housing charges by creating competition for a limited supply of housing. Until the results of the HUD experimental program are available and determinations are made on these major questions, we recommend that there be no further expansion of the Housing Allowance Program. The experience with housing allowances in other countries shows they have been unable through an allowance system to stimulate necessary additional production of housing for those who are assisted.

The Housing Allowance Program is not an acceptable substitute for present

housing subsidy programs. If housing allowance funds were recommended in amounts sufficient to take care of all people of low and moderate incomes in need of decent housing, the immediate impact on the budget would be so large as to preclude the likelihood of its approval by the Executive Branch and the Congress. Moreover, if such a program were adopted, it would greatly inflate the charges for the limited supply of available housing which meets proper standards. If we tried to produce all of this housing at one time to meet the needs of all who would qualify for housing allowances, there would be an inflation in the cost of the land, materials, and labor required to produce the housing.

The only way to avoid such inflation would be through a program which would make housing allowances available gradually on a small scale. However, when checks are being mailed for housing allowances, all people who are eligible will want and expect their checks when a distribution starts. This is different from the present programs where the subsidies are properly tied to the additional housing production which is required. People understand that they have to wait their turn until the additional housing is produced at an annual rate which is geared to the productive capacity of the building industry and which avoids inflating housing costs.

13. RURAL HOUSING

The extensive substandard housing in rural areas has been too long neglected. There should be an increase in the authorizations for rural housing and renewal and the perfection of existing rural housing and planning programs. This is necessary to achieve the goal to make rural America more attractive and livable for all, including the young and better educated. The same kind of financial assistance as is provided for urban housing and renewal should be available for rural housing and renewal.

14. EQUAL HOUSING OPPORTUNITY AND FREEDOM OF CHOICE

We should provide an opportunity for freedom of choice in our housing programs. The choice of individual or cooperative homeownership or rental housing and the choice of city, suburban, new town or country living must not be limited by race, color, religion or national origin. With housing in each development available for a cross-section of income groups and a broader market, we can provide freedom of choice to people of all incomes to select where they want to live.

15. SECURITY FOR RESIDENTS OF PUBLIC HOUSING

Many of the concerns with crime and vandalism now associated with public housing developments can be eliminated by proposals in three areas which we have discussed in my brief accompanying oral statement to the Committee. These are:

first, the adoption of minimum security standards should be a part of the Minimum Property Standards and included in HUD's rules and regulations for all new housing developments. Two model security codes do exist -- one for buildings generally, and the other for the elderly specifically. They were developed by the Department of Justice's National Institute of Law Enforcement and Criminal Justice, and are readily available;

second, for existing assisted projects, funds should be made available to provide the necessary hardware -- locks, bolts, communications systems -- and space modifications which have proven to be effective in reducing crime; and

third, software program money (relatively small sums) should be available for assisted projects, to meet the cost of volunteer citizen patrols and resident's meeting expenses.

We recommend amendments to S. 2182 to include a security element in that proposed housing legislation. We will forward the language of these legislative recommendations to you when they are formulated.

16. COMMUNITY DEVELOPMENT SPECIAL REVENUE SHARING

Last year, NHC supported the community development special revenue sharing system as embodied in the Bill enacted by the Senate, but which did not reach the House Floor for action. However, our support of that legislation was and is conditioned upon the continued availability, at an adequate level, of categorical grants for community development programs until special revenue sharing becomes effective. This is what the President recommended last year but opposes this year. It is also conditioned upon the release of the President's suspensions of HUD-assisted housing programs and additional authorizations for those programs.

S. 1744 provides for a two-year Federal authorization with obligation authority of $5.9 billion of which $2.7 billion would become available on July 1, 1974, and the balance of $3.2 billion would become available on July 1, 1975. In view of the major programs which would be merged into the proposed Community Development Program and in order to assure adequate financing and continuity, NHC recommends a three-year program of $12.1 billion, with $3.7 billion available for obligation in the first year and $4.2 billion in each of the second and third years.

Until the authorization for the Community Development Program becomes

available at the beginning of the fiscal year after legislative enactment, there should be an orderly transition from the present categorical grant programs to the special revenue sharing programs. Accordingly, we recommend authorizations and appropriations for Fiscal 1974, commencing on July 1, 1973, which would equal $3.7 billion to cover the categorical grant programs that would be consolidated under the Community Development Program.

NHC supports S. 1744 with the following amendments:

(1) an amendment providing for a 100% grant -- as contained in S. 1743 and in last year's House Bill HR 16704 -- instead of the 90% grant in the Senate Bill; and

(2) an amendment providing that there be a final separate urban renewal appropriation, to become available upon the effective date of the CDP program. This should be ample for the completion of all on-going urban renewal projects including NDP programs in order to avoid a drain on CDP grant funds.

S. 1744 would consolidate five categorical grant programs into one block grant. There would be a total Community Development Program (CDP) prepared by the local community, including all physical development, rebuilding and rehabilitation activity, and eligible for federal funding on an annual basis. In drafting its CDP, the locality would have to take stock of its physical inventory, set priorities, describe the local program for meeting housing needs, and relate each component in the plan to the specific public need it seeks to meet.

The plan, if approved, would receive federal funding on a yearly increment basis, similar to that in the NDP program. The locality's application to HUD

would contain a three-year forecast of community development activies and objectives needed, including a one-year budget and program, and a request for a second-year reservation of funds.

The funds would be distributed to localities by a formula based on size and need with a statutory provision to assure a continuity of funding based on recent program experience. An important feature of the program is the provision for an assured and adequate level of funding in 2-year cycles with assurance of funds for one year in advance of each current year. The program would be effective upon date of enactment, but no funds would be available for disbursement until July 1, 1974.

The broad principles of S. 1744 are in accord with the objectives endorsed by the membership of the National Housing Conference at our annual convention in March of this year recommending legislation establishing a total community development program based on the premise that "Federal grants should provide incentives to promote national programs and objectives relating to housing and community development".

The National Housing Conference supports the basic principles of S. 1744 on two primary grounds.

First, The bill preserves the integrity of the national goals and objectives for community development which have been established by the Congress in successive legislative enactments since the passage of the historic Housing Act of 1949. All of this legislation had, of course, the support and leadership of this committee. We believe it is of the utmost importance to preserve these national standards, which are the product of years of study, investigation, hearings and floor debate in the Senate and in the House of Representatives. These standards also represent an impressive concensus of the views and support of a broad range of public interest and private enterprise organizations and should not be abandoned.

Second, the bill, by substituting block community development grants for the numerous related but separate grant programs for urban renewal and related activities, offers the opportunity for a decisive simplification and acceleration of activities essential for the welfare of urban areas, large or small.

At this point, I would like to explain the reasons for the strong preference of the National Housing Conference for the basic provisions of S. 1744 as compared with the Administration's proposed program as set forth in S. 1743. While there are numerous similarities in the stated objectives, in contrast with S. 1744, S. 1743 would surrender to local communities the allocation of Federal funds among the various categories of community development without regard to any over-all plan dealing with all aspects of the community development program.

The National Housing Conference is a strong believer in local responsibility and initiative within nationally established guidelines and policies. But we also believe strongly that national problems such as community development require that the use of Federal financial assistance be channeled to relieve problems defined by such national guidelines and policies. In our opinion, this objective would be well served by the provisions of S. 1744.

17. NHC RESOLUTIONS ON HOUSING AND COMMUNITY REDEVELOPMENT

NHC's 1973 resolutions are the result of studies and extensive consultations last year with the Administration and Congressional leaders. We also consulted with a broad spectrum of the housing industry and public interest groups. Many of our recommendations parallel in broad principles the provisions contained in S. 2182 and S. 1743. We refer you to those resolutions for our recommendations concerning further amendments to these bills and our other legislative proposals.

NATIONAL HOUSING CONFERENCE RESOLUTIONS
ADOPTED BY
NHC MEMBERSHIP AT ITS ANNUAL MEETING
ON MARCH 5, 1973
RELATING TO
PRESIDENT'S IMPOUNDMENTS, SUSPENSIONS AND TERMINATIONS
OF HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

(For the legislative policies of the National Housing Conference, see its separate accompanying report.)

1. SUMMARY OF FINDINGS AND RECOMMENDATIONS

By direction of the President, HUD issued orders which became effective on January 5, 1973, to suspend immediately all HUD-assisted housing programs and to suspend or terminate community development programs either on that date or on June 30, 1973. Every HUD-assisted housing program and every HUD grant program is either suspended or terminated -- nine of them as of January 5, 1973, and the other six as of June 30, 1973.*

In addition, the Farmers Home Administration (FmHA) ordered the immediate discontinuance, on January 8, 1973, of its subsidized programs of loans and grants for low-income farmers and farm laborers (except as to self-help participants) and suspended water, sewer and other programs as of January 1, 1973.

There will be a cut of 629,000 units in HUD-assisted housing commitments during the 18-month period until June 30, 1974. The total economic impact will be $27 billion in expenditures and 3 million man years in employment as a result of these suspensions in the urban housing programs. With the further impact of the suspension or termination of community development programs and other social, health and welfare programs, these reductions will contribute to a recession starting the middle of next year as forecast by some leading economists.

The cutback in these programs without a concurrent replacement with other programs designed to increase housing opportunities and housing choices, at prices most minorities can afford to pay, will cause incalculable harm, further disillusionment with the Federal Government, and increased racial unrest and conflicts in our cities. During the 18 month moratorium, there will be a loss of 106,500 subsidized housing units under the FmHA programs in 900 rural communities and a loss of water and sewer programs in a much larger number of such communities. The poorly housed in rural areas will be the victims along with a devastating effect on the rural economy.

Over $860 million of funds and contract authority were impounded in the HUD programs. This consists of $529 million of appropriated funds and $331 million of contract authority for Rent Supplements and Sections 235 and 236. In addition, there have been $934 million of impoundments in the programs of FmHA, the Rural Electification Administration, and other rural development programs. These Presidential impoundments were part of a larger pattern of similar actions totalling $8.723 billion in impoundments of appropriations for the Federal Government which do not include additional amounts covering impoundments of contract authority.

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* These suspensions or terminations do not apply to the payment of operating subsidies to meet deficits in public housing projects or the other subsidies required to meet outstanding contract commitments on HUD-assisted housing.

These unilateral Executive actions are the most disastrous on housing and community development that have occurred in the history of this organization. They will deny fulfillment of unmet needs for decent housing among people of low and moderate incomes. In combination with the elimination of rent controls, they will contribute to inflation and an increase in the cost of living for hundreds of thousands of low income families who will be denied decent housing.

These actions by the President are equivalent to the repeal of many laws which have been enacted by the Congress and signed by the President, some of which have been in effect for as long as 35 years. We believe they are an unconstitutional exercise of the powers of the Executive. As Senator Samuel J. Ervin, Jr. (Chairman of the Senate Judiciary Committee) has said:

> "Impoundment amounts to government by decree, and if the practice is permitted, the collective voice of 535 members of Congress could be overridden by one man...That would be government without law."

The suspension and termination of these programs constitute a breach of faith to the thousands of housing sponsors and the many communities which have invested heavily in housing and community development activities in the expectation they could carry them to completion under existing laws and appropriations and frequently the encouragement of Federal officials. They will result not only in severe financial hardships to these participants, but also in the disruption in productive capacity so essential to a resumption of the suspended activities. In his speech before the National Housing Conference, Senator John J. Sparkman (Chairman of the Senate Committee on Banking, Housing, and Urban Affairs) pointed out the urgency of action by HUD to relieve the hardships which have resulted from the sudden cutoff of promised funds for individual projects:

> "Regardless of how the impoundment issue is resolved, the sudden and arbitrary cutoff of promised funds for individual projects is an indictment of the integrity and creditability of the Federal Government. Commitments and promises, whether verbal or written, should be no less honored by Government than they are by individuals. It is not fair that financial losses incurred by the arbitrary cutoff be borne by church groups, labor unions, homebuilders, and a variety of public and private citizens who, in good faith with the cooperation and understanding of the local HUD officials, proceeded to spend money and make plans. I have received a letter from one church group which indicated a possible loss of $250,000 in front-end money that will be lost as a result of the sudden cutoff of funds."

The National Housing Conference is sympathetic with the President's stated objective of consolidating the several community development programs into a special revenue sharing system. Last year, NHC supported the community development special revenue sharing system as embodied in the Bill enacted by the Senate, but which did not reach the House floor for action. However, our support of that legislation was and is conditioned upon the continued availability, at an adequate level, of categorical grants for community development programs until special revenue sharing becomes effective. This is what the President recommended last year but opposes this year. We also recommend that the legislation providing for community development revenue sharing include provisions for the release of the President's suspensions and terminations of HUD-assisted housing and community development programs.

NHC's 1973 legislative proposals, which are being presented separately, are in fact a result of studies and extensive consultations with the Administration, Congressional leaders and a broad spectrum of the housing industry and public interest

groups. They parallel in broad principles the major legislative recommendations of the President during the last two years and the provisions contained in the housing bills passed in 1972 by the Senate and reported favorably by the House Banking and Currency Committee.

But the new and modified programs ultimately proposed by the President and enacted by the Congress can be effectively initiated only if there is an orderly transition from continuing existing programs. This would give time for the full consideration and debate these proposals warrant and for the development of procedures and guidelines for their administration. Meanwhile the present programs could continue to serve the needs of our cities and towns and -- as they have in the past, contrary to unsubstantiated charges of the Administration -- the needs of low and moderate income families. The housing industry would be able to make the transition to the new programs, without the convulsions to its productive capacity which the HUD suspensions are creating.

We recommend and hope that the President will cause the rescission or modification of these orders suspending and terminating programs. We recommend and urge that Congress take such steps as are necessary to reassert its constitutional legislative powers and responsibilities and to protect, from Executive nullification, legislation which it has enacted, such as the housing and community development programs initiated over the last four decades.

The suspension of HUD-assisted housing programs as of January 5, 1973 did not apply to the payment of operating subsidies to meet deficits in public housing projects. The President's budget contemplates the payment of $350 million of operating subsidies for Fiscal 1973, but it reduces this amount to $280 million for Fiscal 1974. It is imperative that at least $500,000,000 be appropriated for each of Fiscal Years 1973 and 1974 for operating subsidies in public housing projects.

These operating subsidies are necessary to offset the loss of rental income in public housing which has resulted from the Federal statutory limit -- the Brooke Amendment -- placed on the percentage gross income to be paid by the tenants of public housing units. The Federal Government is committed to make these payments under contracts made by it pursuant to Federal laws. Sufficient operating subsidies should be provided to every public housing agency to cover:

(a) adjustments for inflation;

(b) reimbursement for losses on welfare families and others whose rentals were reduced by the limitations in the Brooke Amendment;

(c) establishment of adequate operating reserves which should be at a level -- approved by HUD in the past -- which would equal 50% of the operating budget for routine expenses of the housing authority; such increase in the operating reserves to be achieved over a period of five (5) years;

(d) payments in lieu of local taxes of 10% of shelter rents including the operating subsidies which offset reductions in such rents required by the Brooke Amendment;

(e) deferred maintenance;

(f) modernization; and

(g) tenant services.

All funds authorized for operating subsidies should be promptly released. There should be forward disbursements in a manner to assure that the operating subsidies are received by every local public agency in time to meet its payroll and bills and to fulfill its obligations as they become due. Moreover, the required amounts of subsidies should be determined in a realistic manner, taking into account present price and pay levels and operating costs.

2. PRESIDENT'S DENIAL OF SENATOR SPARKMAN'S PLEA

We are attaching as Exhibit "A", a statement inserted in the Congressional Record by Senator Sparkman. That statement includes a telegram which Senator Sparkman sent to the President urging that he reject the reported White House plan to cut off subsidies, which telegram stated in part:

> "Such a plan would be a clear violation of intent of Congress as expressed in Appropriation Acts and of the 1949 and 1968 housing laws requiring Federal assistance to eliminate slums and blight and provide a decent home for every American family. Without Federal assistance, little hope for decent housing can be held out for six million families still living in substandard housing.
>
> "The proposed plan would not only represent a breach of faith on the part of our government to the poor and ill-housed of the nation, but it would create unemployment and have a disastrous effect on the housing industry and the nation's economy. Without subsidized housing, the nation's cities would be frustrated in carrying out their public improvement plans.
>
> "My Committee plans to have extensive hearings on the need for subsidy programs early in the next Session, and I strongly urge that no cut off be made before completion of the hearings."

The President denied Senator Sparkman's plea to reject the reported White House plan to suspend or terminate subsidy assistance for housing and community development programs.

3. PRESIDENT'S SUSPENSIONS AND TERMINATIONS OF HUD PROGRAMS

In the Budget submitted to the Congress by the President, the following housing and community development programs in HUD were suspended or terminated by the President as of the following dates:

Programs Suspended	Effective Suspension Date
1. Assisted housing including rent supplements, Section 235 and 236 and Public Housing	January 5, 1973
2. Non-Profit Sponsor Assistance	January 5, 1973

Programs Terminated	Effective Termination Date
1. College Housing	January 5, 1973
2. Community Development Programs	
(a) Open Space Land	January 5, 1973

Programs Terminated (Cont'd.)	Effective Termination Date
(b) Water and Sewer Facilities	January 5, 1973
(c) Public Facilities Loans	January 5, 1973
(d) Model Cities Programs	June 30, 1973
(e) Neighborhood Facilities	June 30, 1973
(f) Urban Renewal Programs	June 30, 1973
(g) Rehabilitation Loans	June 30, 1973
3. Community Planning and Management Programs	
(a) Community Development Training and Fellowship Programs	June 30, 1973
(b) Supplementary Grants for New Communities	June 30, 1973

By suspending the HUD-assisted housing programs as of January 5, 1973, HUD will only recognize (i) HUD commitments issued by that date; (ii) feasibility letters issued by that date which met its acceptable standards of quality processing or documentation; and (iii) certain specific program commitments which are to be identified in future HUD instructions. HUD will not recognize (i) fund or program reservations issued by January 5, 1973, which were not then covered by HUD-qualified feasibility letters or commitments; (ii) feasibility letters issued between December 15, 1972 and January 5, 1973 which HUD determines did not have quality processing by its offices; or (iii) other assurances which were given by HUD officials that projects would receive feasibility letters or funding on pending applications which were in process by that date.

4. PRESIDENT'S IMPOUNDMENTS OF HUD AND OTHER FUNDS

Over $860 million of funds and contract authority were impounded for the foregoing HUD programs. This consists of $529 million of appropriated funds and $331 million of contract authority for Rent Supplements and Sections 235 and 236. In addition, there have been $934 million of impoundments in the programs of the Farmers' Home Administration, the Rural Electrification Administration and other rural development programs.

These Presidential impoundments were part of a larger pattern of similar actions totalling $8.723 billion in impoundments of appropriations for the Federal Government which do not include additional amounts covering impoundments of contract authority. A substantial part of these impoundments relate to social, housing, health and welfare programs, with particular deprivations among the underprivileged who most need help.

5. REDUCTION IN PROGRAM LEVELS OF HOUSING FOR LOW AND MODERATE INCOME GROUPS

As a result of the foregoing actions, during the Fiscal Years 1973 and 1974, there will be the following reductions totalling 629,000 units in the program levels of housing for low and moderate income groups who cannot obtain decent housing without HUD assistance:

	Fiscal 1972	Fiscal 1973	Fiscal 1974
Homeownership Assistance Program (235)			
Reservation of authority			
Number of units	152,135	40,100	0
Rental Housing Assistance Program (236)			
Reservation of authority			
Number of units	157,541	100,100	0
Rent Supplement Program			
Reservation of authority	16,386 *	8,800 *	
Number of units			0
Low Rent Public Housing			
Annual contributions contracts approved (units)	100,862	46,000	29,800
Total Units Covered by Authorizations Use	426,924	195,000	29,800

In addition to the foregoing programs, the modernization program of low rent public housing was terminated as of June 30, 1973.

The total reduction in HUD-assisted housing program levels will be 232,000 units from Fiscal 1972 to 1973 -- more than a 50% cut in Fiscal 1973 as a result of the Presidential suspension of these programs on January 5, 1973 and his impoundment of funds and contract authority. The reduction in Fiscal 1974 in HUD-assisted program levels will be 397,000 units in Fiscal 1974 as compared with Fiscal 1972 -- a cut of 93%. In fact, the remaining 7% is a carry-over to fulfill commitments in the preceding year.

6. HUMAN IMPACT OF REDUCTIONS IN HUD-ASSISTED HOUSING PROGRAM LEVELS

The human impact of these reductions is to deny fulfillment of the unmet needs for decent housing among people of low and moderate incomes. These are the groups who cannot afford decent housing without HUD assistance to reduce the housing charges to their financial reach. The budget cuts and impoundments were made without compassion for the poor or underprivileged who should have a priority in the allocation of Federal funds and resources.

By the end of Fiscal 1974, only 1,680,000 units of assisted housing will have been built or started to meet the goal in the Housing and Urban Development Act of 1968. The ten year goal was to produce 6,000,000 units of housing for low and moderate income families. With four years remaining, it will be impossible to build the balance of 4,320,000 units unless the suspensions are removed. The stoppage of HUD-assisted housing will seriously jeopardize meeting that goal and fulfilling the commitment in the 1968 Act of a decent home and a suitable living environment for every American family.

With the reduction in the building of additional HUD-assisted housing, there will be a grossly inadequate supply of housing for those of low and moderate incomes. Since rent controls have been removed, the resulting scarcity will result in rent increases for existing unsubsidized housing. This will create serious hardships. It will contribute to inflation and an increase in the cost of living.

*These figures do not include 25,998 units for Fiscal 1972 and 20,000 units for Fiscal 1973 that receive piggy-back rent supplements, since these units are in the 236 figures above.

7. ECONOMIC IMPACT OF REDUCTIONS IN HUD-ASSISTED HOUSING

The economic impact is disastrous as a result of the reductions in HUD-assisted housing program levels. As to the cut in HUD-assisted housing commitments in Fiscal 1974, they will result in total reductions in expenditures of over $18 billion. This is due to the housing commitment cut of 397,000 units. This is the total of the following:

(a) direct expenditures for housing construction, land, and community facilities;

(b) indirect expenditures through the multiplier effect; and

(c) expenditures for related services such as taxes, interest, utilities, and operating expenses.

There will be an estimated loss of over 2 million man years of employment.

As to the cut in housing commitments during Fiscal 1973 -- which started with the program suspensions on January 5, 1973 -- the economic impact will be $9 billion in expenditures and 1 million man years in employment due to the housing commitment cut of 232,000 units.

As to the cut of 629,000 units in HUD-assisted housing commitments made during the 18-month period until June 30, 1974, the total economic impact will be $27 billion in expenditures and 3 million man years in employment. These figures do not include the impact relating to the suspension and termination of the community development or rural programs.

The Administration claims that the economy is strong enough to withstand any adverse impact on it during the next eighteen months. The Administration cites the figures on estimated starts on HUD-assisted housing and states that the level will be approximately the same for the Fiscal Years 1973 and 1974. The President's Budget contains the following comparison of HUD-assisted starts for Fiscal Years 1971 through 1974:

Fiscal Year 1971	7/1/70 - 6/30/71	Actual	388,526
Fiscal Year 1972	7/1/71 - 6/30/72	Actual	338,491
Fiscal Year 1973	7/1/72 - 6/30/73	Estimate	275,900
Fiscal Year 1974	7/1/73 - 6/30/74	Estimate	239,955

Housing starts in any fiscal year are different from the housing commitments made in that year. Thus, the housing commitments made in Fiscal 1972 covered 452,922 units, but the starts were 338,526 units.

The housing starts for Fiscal 1973 will be 62,000 units less than in Fiscal 1972 and 102,000 units less than in Fiscal 1971. For Fiscal 1974, the housing starts will be 98,000 less than Fiscal 1972 and 148,000 less than Fiscal 1971. This reduction in housing starts reflects the cut off in commitments due to the suspension of programs on January 5, 1973.

These reductions in housing starts will have an adverse impact on the economy in Fiscal 1973 and a more serious impact in Fiscal 1974. In addition to the

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reductions in expenditures and employment due to the lower level of housing starts, there will be large reductions due to the stoppage of any HUD-assisted project initiation, with a stoppage of all of the work and investments that would otherwise occur.

The most disastrous effects will occur in Fiscal 1975, starting the middle of next year. There is a substantial time lag between the issuance of a commitment and the start of construction. There is a much greater time lag between the initiation of a project -- which starts long before the filing of an application with HUD -- and the start of construction. In a typical project, the lead time may be as much as eighteen months from initiation to the start of construction.

The housing starts for Fiscal Years 1973 and 1974 will use up the pipeline of HUD-assisted projects previously initiated and committed. So by Fiscal 1975 there will be virtually no pipeline of such previously committed projects. It would then typically take about eighteen months to get HUD-assisted projects initiated and processed to start of construction, even with the present productive capacity to initiate and develop such projects. However, if all HUD-assisted programs are suspended, there will be a destruction of that productive capacity which is now initiating and developing HUD-assisted housing. Builders, workers, lenders, sponsors, and others will seek other work. Then we will be unable to achieve housing starts for a long period following the lifting of a moratorium.

As part of the cutback in HUD-assisted housing, there are large reductions in staff within HUD both in headquarters and the field offices. Along with continuing the existing HUD-assisted housing and community development programs during the period of transition, we urge that this staff be retained. They represent an important national resource of trained and experienced personnel who are required to administer HUD programs.

The foregoing Presidential suspensions and impoundments in HUD-assisted housing programs will have a most disastrous effect in Fiscal 1975, starting the middle of next year. The reductions of $27 billion in expenditures and 3 million man years in employment due to the lower program levels of HUD-assisted housing -- in addition to the further impact of suspending or terminating community development programs and suspensions in other social, health and welfare programs -- will contribute to a recession starting by the middle of next year as forecast by some leading economists.

In order to keep faith with the people who relied upon existing laws and to avoid the serious adverse impact on the economy of discontinuing the initiation of any HUD-assisted projects, it is necessary that existing housing and community development programs be continued during any period of transition to modified or new housing programs or block grants for community development.

8. PRESIDENT'S SUSPENSIONS AND TERMINATIONS OF FmHA PROGRAMS

Along with HUD's subsidized housing programs, the housing programs of the Farmers Home Administration (FmHA) have been suspended. The moratorium immediately ceases most interest credit loans under the 502 home ownership program, the 515 rental program, and all loans and grants for farm labor housing. Clearly, low income families in rural America who need better housing no longer have a rural agency to serve them. With the suspension of HUD subsidized housing programs, most importantly public housing, no alternative source exists.

The FmHA housing and community development programs affected by the moratorium are as follows:

(a) Farm Labor Housing Loans and Grants - (Sections 514-516) - No additional applications for loans and grants will be approved.

(b) Rural Rental Housing Loans and Rural Cooperative Housing Loans - (Section 515) - Only applications that do not require interest credits may be approved.

(c) Homeownership Loans (Section 502) - unsubsidized homeownership loans will continue to be approved at the unsubsidized interest rate.

(d) Interest credit loans may continue to be approved if any of the following conditions exist:

(1) The applicant is a member of a self-help housing group. (This exception is reported to be eliminated after June 30, 1973.)

(2) The applicant is a low income family whose home will be built with the assistance of manpower trainess. (This exception is reported to be eliminated after June 30, 1973.)

(3) The loan is made to a low income family to buy a home built or being built as a result of a written commitment made to a builder or developer, or where verbal commitment was made and construction was actually started (footings poured) prior to January 9, 1973.

(4) Subsequent 502 and 515 RRH, where sole purpose is to complete construction related to cost overruns.

(5) Those who filed 502 applications prior to 1/9/73 and written evidence was in the county office prior to then that either: (a) had option for site or home, (b) owned site for planned home, (c) packaged data was complete, (d) owned home to be improved or repaired, (e) received written confirmation of RH eligibility from FmHA.

(6) Families purchasing sites where a rural housing site loan was approved prior to 1/9/73 and (a) interest credit is necessary, and (b) failure to extend interest credit loans would jeopardize repayment of the FmHA site loan.

(7) Certain transfer loans.

(8) For existing loans when necessary to avoid foreclosure, under certain circumstances.

(9) Renewal of interest credit agreements is authorized where the processing of same was not completed in the 1972 review period, for reasons beyond the control of the applicant or county supervisor.

(e) Water and Waste Disposal Grants (Consolidated FmHA Act of 1961) - No additional grants will be approved.

9. REDUCTION IN FmHA PROGRAM LEVELS

Unlike the HUD subsidized housing programs, Farmers Home programs do not build up a sizeable pipeline of unit reservations and commitments. The effect of the moratorium will therefore be much more dramatic in rural areas. Except for the minor exceptions mentioned above, there will be no FmHA subsidized housing starts for either homeownership or rental housing in Fiscal 1974.

Units Provided Under Section 502 Program, by Fiscal Year:

	1972		1973		1974	
	projected	actual	projected	actual	projected	actual
Subsidized	57,590	76,683	70,650	40,430	-0-	-0-
Unsubsidized	55,210	35,499	67,650	69,500	69,500	NA
TOTAL	112,800	112,182	138,300	109,930	69,500	NA

In the current fiscal year, there will be a 43% decrease in the program level expected under the subsidized section 502 homeownership program. Over the full 18 months at the moratorium, there will be a loss of approximately 100,000 subsidized 502 units, if we assume that the program level in Fiscal 1974 would be the same as in the current fiscal year.

The original Fiscal 1973 budget projected $70 million for the Section 515 rental housing program. Based on the level of activity during the first half of this fiscal year, it is difficult to see how that level can be reached, but FmHA contends that it has enough rental applications in the pipeline to still make its original target. However, if the Fiscal 1974 level were to have been 50% above the original projection for Fiscal 1973 (and this is less than the increase targeted for 1973 over 1972), the level next year would have been $105 million instead of the $44 million now programmed by the Administration. This shortfall represents an estimated 5,300 units.

Congress appropriated $3,750 thousand for grants under the Farm Labor Housing program for Fiscal 1973. If FmHA loaned twice as much as it granted under this program (roughly the pattern during the first half of this fiscal year), the total program level would have been $11.3 million. The agency now indicated that it will make less than $2.2 million in grants, implying a program level of only $6.5 million. The shortfall here is estimated at 450 units for the rest of this fiscal year. If the program for Fiscal 1974 increased by only 20% (the amount of increase originally projected from Fiscal 1972 to Fiscal 1973), it would have reached a level of $13.6 million, representing an estimated 1,200 units.

The Congress has authorized FmHA to make $100 million in development grants for water and sewer facilities each fiscal year and $15 million for planning grants for such facilities. It appropriated more than enough money for that level for this fiscal year. Based on Fiscal 1972 statistics, FmHA lends $7.50 for every $1 in development grants it provides. Therefore, the program level which would have met the Congressional mandate would be $865 million each fiscal year. Instead, the Administration plans a level of only $330 million this year and $345 million next year (the latter in loans only, and for water systems only). The implicit shortfall is therefore more than a half-billion dollars each fiscal year. Based on FmHA's Fiscal 1972 program statistics, the shortfall in the water and sewer programs represents more than 950 communities this fiscal year and nearly 900 more which will go unserved by the FmHA program.

10. HUMAN IMPACT OF REDUCTIONS IN FmHA ASSISTED HOUSING

Non-metropolitan areas of the country, with only 30% of the population, have fully 43% of the poverty and 44% of the inadequate housing. One house in seven in non-metropolitan areas is either overcrowded or lacking essential plumbing, as compared to one house in 25 in metropolitan areas. There are approximately 2.5 million rural families now in need of a decent place to live.

With the exception of public housing, HUD programs do not address the housing problems of rural areas. The burden of providing decent housing for low and moderate income rural families rests squarely on the Farmers Home Administration. Without continued high levels of production under FmHA subsidized housing programs, non-metropolitan areas will once again become the housing wasteland they were prior to 1968.

The moratorium is clearly against the intent of Congress as expressed in the rural development act of 1972 and the Farmers Home Administration subsidized housing programs.

11. ECONOMIC IMPACT OF REDUCTIONS IN FmHA ASSISTED HOUSING

While the poorly housed are the most obvious victims of the freeze on FmHA subsidized housing funds, the effects on the rural economy will be widespread. Rural America's potential direct loss of just housing dollars over the proposed 18 month moratorium is nearly $1.6 billion. Potential direct employment losses are estimated at 133,120 man years.

Employment losses due to the termination of the water and sewer grant program, estimated on the basis of the FmHA figure of 80 man years for each $1 million investment, could be as high as 84,000 man years. These funds would have generated additional loan funds at a ratio of 7 to 1.

These losses are direct construction related losses. The actual losses due to the economic multiplier effect could very well be 2 to 3 times greater.

Construction trades have been one of the fastest growing employment sectors in rural America. The loss of these jobs will have a devastating impact on the hopes for accelerated rural growth. These losses will have a serious impact on the poorly housed, the rural communities in which bad housing exists, and the construction industry.

12. IMPACT OF REDUCTIONS ON RACIAL MINORITIES

A. Impact Upon Minority-Owned Businesses

In the President's Statement of June, 1971, on Federal Policies in Equal Opportunity in Housing, the President stated that his administration is committed to "correct for the effects of past discrimination". Statistics collected in the 1970 Census indicate that blacks and other non-white minorities occupy a disproportionate amount of housing classified as deteriorating, substandard and dilapidated. In rural housing, over 50% of blacks occupy such housing compared to 8% for whites. A recent HUD-issued report entitled "Blacks Pay More" indicates that, in the cities surveyed, black minorities pay a higher cost for housing, often of less quality, than whites do.

The effects of the current moratorium upon minority enterprises which were spawned and nurtured by subsidized housing programs may be termed disastrous. The economic momentum gained through housing production will hit hardest those minority-owned businesses involved in the housing industry. These firms lack the financial resources to withstand even minimal production cutbacks and face the choice of immediate bankruptcy or going out of business.

B. Impact Upon Patterns of Housing Segregation

The incidence of housing segregation in the cities and suburbs continues to increase. In 1972, Federally assisted programs began to require a number of affirmative actions to help expand housing opportunities beyond racial ghettos. These programs designed to further equal housing opportunity have begun to take hold. Subsidized housing has done more than any other housing program to provide new opportunities for minorities to escape the confines of ghettos, to move nearer to new job opportunities and to improve the quality of life and environments necessary for minorities to become a part of our overall society.

C. Recommendations

Any cutback in these programs without a concurrent replacement with other programs designed to increase housing opportunities and housing choices, at prices most minorities can afford to pay, will cause incalculable harm, further disillusionment with the Federal Government, increased racial unrest and conflicts in our cities, and prolong the fulfillment of the government's policy to assure every American a decent home in a suitable environment.

NHC believes that the Administration has overlooked the impact that the program terminations and suspensions will have upon racial minorities. Accordingly, we call for the needed exceptions to be granted in each of the affected programs to assure that the civil rights and equal housing opportunity program requirements will be fulfilled.

13. CONTINUANCE OF HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS DURING TRANSITION PERIOD

Existing housing and community development programs should be continued during the period of transition until modified housing programs or special revenue sharing community development programs are made effective. This is necessary in order to keep faith with public agencies and private citizens who made their plans and investments in reliance upon existing laws which have long been a part of Federal assistance programs. These programs should not be suspended or terminated until action is taken to repeal or modify these laws and until authorized alternative or modified programs begin.

The new and modified programs ultimately proposed by the President and enacted by the Congress can be effectively initiated only if there is an orderly transition from continuing existing programs. This would give time for the full consideration and debate these proposals warrant and for the development of procedures and guidelines for their administration. Meanwhile the present programs could continue to serve the needs of our cities and towns and -- as they have in the past contrary to unsubstantiated charges of the Administration -- the needs of low and moderate income families. The housing industry would be able to make the transition to the new programs, without the convulsions to its productive capacity which the suspensions are creating.

It is necessary to maintain an orderly transition from present programs to new or modified programs, without any interruption in Federal assistance, in order to accomplish the following purposes and objectives:

(a) Avoid hardships and difficulties for those who acted in reliance on existing laws as described elsewhere in this Report. The suspensions and terminations of programs constitute a breach of faith to the thousands of housing sponsors and the many communities which have invested heavily in housing and community development activities on the expectations they could carry them to completion under existing laws and appropriations and frequently the encouragement of Federal officials. They will result not only in severe financial hardships to these participants, but also in the disruption in productive capacity so essential to a resumption of the suspended activities.

(b) Meet the unmet needs among those of low and moderate incomes who cannot afford decent housing without HUD assistance and continue to fulfill the commitment in the 1968 Law to achieve the ten-year goal of six (6) million units of such housing.

(c) Avoid the disastrous economic impact of the reductions in the initiation and development of assisted housing authorized by existing laws. During an eighteen-month period, such reductions in urban housing program levels would reduce expenditures by $27 billion and employment by 3 million man years.

(d) Enable the completion of pending HUD-assisted housing projects under the applicable present laws to permit an orderly transition to modified or alternative programs enacted into law. Sufficient assistance funds should be provided to finance whatever amendments are necessary to carry these projects to completion.

(e) Enable the completion of community development and housing programs which are closely related in the planning and execution of urban improvement activities.

(f) Enable communities with conventional urban renewal projects in execution to complete these projects under present laws (Title I of the Housing Act of 1949, as amended) rather than under the community development special revenue sharing system. Sufficient Title I funds should be provided to finance whatever contract amendments are necessary to carry these projects to completion, including orderly close-outs.

(g) Continue the current spending levels for community development categorical grant programs through Fiscal 1974 to prevent a fall-off in the current levels of these activities. The Administration's proposed budget for Fiscal 1974, by eliminating the funding of these programs, would not permit an orderly transition to the special revenue sharing system, which would start in Fiscal 1975 if enacted.

(h) Assure communities that they will be able to protect the private and public investments already made in renewal project areas by extending the boundaries of these areas to the extent necessary to permit feasible renewal and protect the local and Federal investment previously agreed upon and contracted for. This protection should apply to conventional urban renewal projects, Neighborhood Development Program projects, and Model Cities areas.

(i) Enable communities to complete programs for designated large areas under the Neighborhood Development Program -- as permitted by Federal regulations -- even though the Federal and local governments realized that the renewal of these large areas had to be funded and undertaken in smaller annual increments over a period of several years. Otherwise, there would be a breach in the general understanding that the renewal of these large areas was to be completed over a period of time in compliance with Federal regulations.

The first imperative for meeting our housing goals is full funding and full use of all authorizations contained in the housing laws. We urge that Congress move quickly to enact authorizations for our present housing programs since there are no authorizations available for public housing and (except for carry-overs) for Sections 235, 236 and Rent Supplements for Fiscal 1974 beginning on July 1, 1973. We recommend the following legislative authorizations and appropriations:

On July 1, 1973, for Fiscal 1974 an additional authorization of $300 million for Section 235;

On July 1, 1973, for Fiscal 1974 an additional authorization of $300 million for Section 236;

On July 1, 1973, for Fiscal 1974 an additional authorization of $100 million for Rent Supplement program; and

On July 1, 1973, for Fiscal 1974 an additional authorization of $400 million for Public Housing.

We urge the foregoing authorizations and full funding in the foregoing amounts for Fiscal 1974 and advance authorizations and funding in like amounts for Fiscal 1975.

As to the community development special revenue sharing program, last year's Senate Bill provided for a two-year Federal authorization with obligation authority of $5.9 billion of which $2.7 billion would become available on July 1, 1973, and the balance of $3.2 billion would become available prior to July 1, 1975. In view of the major programs which would be merged into the proposed Community Development Program and in order to assure adequate financing and continuity, NHC recommends a three-year authorization of Federal funding at higher levels than in the Senate-passed bill. NHC recommends a three-year program of $12.1 billion, with $3.7 billion available for obligation in the first year and $4.2 billion in each of the second and third years.

Until the authorization for the Community Development Program becomes available on the beginning of the fiscal year after legislative enactment, there should be an orderly transition from the present categorical grant programs to the special revenue sharing programs. Accordingly, we recommend authorizations and appropriations for Fiscal 1974, commencing on July 1, 1973, which would equal $3.7 billion to cover the categorical grant programs that would be consolidated under the Community Development Program.

14. RELIEF OF HARDSHIPS CAUSED BY IMPOUNDMENTS, SUSPENSIONS, AND TERMINATIONS

The precipitous action of the President in impounding appropriated funds and contract authority and suspending or terminating programs should in no event be retroactive with respect to pending plans, applications, and projects of intended participants in programs. They acted in reliance upon legislative authorizations and appropriations under the HUD-assisted programs which were suspended or terminated on the dates listed above. It would be most unjust and inequitable to deny further participation in these programs which have long been a part of Federal legislation and which have been relied upon by private citizens or public agencies who acted in good faith, often with assurances or encouragement from the Federal officials administering the programs. This is another reason why these programs should be continued during any transition or re-evaluation period until other programs are made effective and also thereafter with respect to projects initiated under present legislation.

By way of illustration -- and not as a complete list -- we cite some examples of cases that demonstrate the kinds of hardships and difficulties that will result unless relief is granted by lifting the moratorium and providing adequate funds under the budgets for Fiscal 1973 and 1974. To avoid serious difficulties which would result, with large losses to the parties involved -- and hardships to the consumers -- we recommend that commitments for subsidy assistance be issued in the following types of cases:

(a) To date, HUD has not issued instructions enumerating what types of HUD-assisted housing projects would be recognized as justified exceptions to fulfill specific program commitments or to relieve hardships. However, it has cited two examples of such justified hardship exceptions which are described in the following sub-paragraph. Moreover, HUD has not established any exception categories for the fulfillment of specific program commitments or otherwise under community development programs.

(b) HUD has cited two examples of the type of projects which justify exceptions, namely:

(1) Cases which involve succeeding sections of cooperatives in which the project concept has been approved and the first section had been given a feasibility letter before January 5, 1973, with succeeding sections covered by fund reservations before then where the succeeding sections are required in order to support the community facilities. This exception should be extended to cover such succeeding sections of cooperatives and other types of projects (i) which are not covered by fund reservations or (ii) which were funded before January 5, 1973, but received feasibility letters after December 15, 1972, that were later withdrawn because HUD determined there had not been quality processing by its offices.

(2) Cases involving state-aided projects where the state has proceeded with the project in reliance upon the reservation of funds before January 5, 1973, and no feasibility letter from HUD was required. HUD has recognized as justified exceptions cases where the state agency was providing the loan financing so that no HUD feasibility was required. This should be extended to cover cases which do not have a feasibility letter, but where a state or commonwealth agency will provide part of the interest subsidies, but not the loans.

(c) We recommend that HUD-assisted housing projects and community development programs of the kinds described in the following sub-paragraphs should be recognized as justified exceptions. These exceptions would be justified in order to fulfill specific program commitments or to relieve hardships or for other meritorious reasons.

(d) On 236 projects which were planned to be developed in sections, HUD offices have provided funding or assurances that the remaining sections of the housing developments would be assisted. Acting in reliance thereon, the developers acquired all of the land and installed over-size utilities to serve the entire developments. Community buildings and facilities were constructed in the earlier sections which require the later sections of the developments to contribute their share to support the community buildings and their operations. Consumers are awaiting occupancy of the housing and have changed their housing plans accordingly.

(e) In conventional urban renewal and neighborhood development project areas where HUD has approved a planning advance or execution funds, the following actions are necessary to enable the contemplated renewal projects to be carried out:

(1) to construct the HUD-assisted housing planned for such areas;

(2) to provide the relocation housing planned on the assumption that these subsidies would be available; or

(3) to meet the statutory requirements applicable to projects where the planned reuse is predominantly residential and the subsidized units are necessary. Among these requirements are: (i) the necessity to show that 50% or more of the units to be constructed in predominantly residential reuse renewal projects in the community are for residents with low or moderate incomes; (ii) the need to show that at least 20% of all units in such projects are for residents with low incomes; and (iii) the need to show that a replacement housing unit will be made available for every occupied housing unit removed from a renewal area.

(f) Communities have committed themselves to provide, as agencies of last resort, subsidized housing units to carry out the relocation or other requirements of urban renewal or neighborhood development projects -- or projects in model cities areas -- for which planning advances or execution funds have been approved.

(g) Communities have proceeded to make development plans for subsidized housing as contemplated in a Federally approved Workable Program for Community Improvement or in understandings reached in negotiations for Federal-local Annual Arrangements made with local councils of governments. In addition, exceptions should be granted where subsidized housing is required in order to meet project selection criteria.

(h) HUD-assisted housing is required for new communities which are being built with private financing involving a Federal guaranty for which a charge is made. The law and the HUD contracts require that some of the housing in these new communities must be provided for those of low and moderate incomes. These new communities were undertaken with the understanding that there would be HUD assistance to enable this housing to be built. New industries, hospitals, and community facilities are being located in the

new communities, which employ some people who will be unable to afford the housing to be built unless they get HUD assistance.

(i) Firm commitments under Section 235 should be issued pursuant to preliminary reservations of 235 contract authority or pursuant to conditional commitments which have been issued and are outstanding; also, relief and exceptions should be granted for hardship or meritorious cases.

(j) In addition to the illustrative types of HUD-assisted housing cases listed above, there are other cases involving program commitments, hardship or meritorious and productive cases, where relief and exceptions should be granted for the following purposes: (1) project rehabilitation; (2) relocation housing; (3) housing for the elderly, Indians, or disaster victims; and (4) college housing. The hardship cases include planned housing developments in which subsidy funding has been provided or assured by a HUD representative, including feasibility letters issued between December 15, 1972 and January 5, 1973 which HUD later withdrew because HUD determined there had not been quality processing by its offices. The sponsors, developers, and public agencies acted in reliance on such funding assurances and invested heavily in preparing plans, filing applications, and making commitments for the HUD-assisted housing projects. Relief and exceptions should be granted in these cases involving public housing -- including conventional, turnkey, or leasing programs -- rent supplements, or Sections 235 and 236. Similar relief should be granted for specific program commitments, hardship and meritorious cases in housing assisted by the Farmers' Home Administration or loans from the Rural Electrification Administration.

(k) Cases involving loans or grants under Section 106 to provide seed capital to non-profit organizations for HUD-assisted housing projects on which the organizations have proceeded in reliance upon feasibility letters or reservations of funding which HUD should honor.

(l) Communities have designated large areas for treatment under neighborhood development programs, even though HUD and the local governments realized that the renewal of these large areas had to be funded and undertaken in small increments over a period of several years. The termination of funds for these areas would be a breach of the general understanding that there would be a completion of these large areas, the boundaries of which had received Federal approval. Unless HUD urban renewal assistance is provided to complete these projects, serious difficulties and losses will result from the actions taken by the communities in good faith in compliance with Federal regulations.

(m) Communities with conventional urban renewal projects require continued assistance to complete these projects under existing legislation. This includes sufficient funds to finance necessary contract amendments to carry these projects to completion. Since many of these programs were initiated some time ago, it is necessary to compensate for inflationary increases in costs in order to enable the proper completion of on-going programs, rather than requiring the scope of the program to be cut back to meet the limits of past funding.

(n) In addition to the illustrative types of community development projects listed above, there are other cases of specific program commitments, hardship or merit where relief and exceptions should be granted under the

following programs: (1) water and sewer facilities; (2) urban renewal; (3) model cities; (4) public facilities loans; (5) neighborhood facilities; (6) open space land; (7) rehabilitation loans; (8) community development training and fellowship programs; and (9) supplementary grants for new communities.

(o) The unique situation of rural areas must be considered. There is no "pipeline" of Farmers Home Administration subsidized housing, as there is of HUD-assisted housing. Merely because of different administrative procedures, rural areas will suffer greater damage from the housing moratorium as all subsidized housing starts will end sometime this spring. Rural subsidized housing funds should be released in an amount adequate to provide for a reasonable level of housing starts.

In his speech before the National Housing Conference, Senator Sparkman pointed out the urgency of action by HUD to relieve the hardships which have resulted from the sudden cutoff of promised funds for individual projects:

> "Regardless of how the impoundment issue is resolved, the sudden and arbitrary cutoff of promised funds for individual projects is an indictment of the integrity and creditability of the Federal Government. Commitments and promises whether verbal or written, should be no less honored by Government than they are by individuals. It is not fair that financial losses incurred by the arbitrary cutoff be borne by church groups, labor unions, homebuilders, and a variety of public and private citizens who, in good faith with the cooperation and understanding of the local HUD officials, proceeded to spend money and make plans. I have received a letter from one church group which indicated a possible loss of $250,000 in front-end money that will be lost as a result of the sudden cutoff of funds.
>
> "One strange element in this matter is the sudden scrupulousness of Washington HUD office, which sent couriers to every Area Office to check decisions made by that office and, later, to override that office if some underwriting material or procedure were missing in connection with Section 236 feasibility letters. This is a strange twist on the rhetoric about Area Office autonomy and local decisions, closest to the people away from the bureaucracy of Washington, being the best decision."

We are pleased to note from Senator Sparkman's statement that he intends to pursue a course of action: "To work with the Administration for a short-run solution to clarify the January 8 impoundment order, to help provide relief for hardship cases and possibly to win concessions for meritorious and productive cases."

NHC urges the Administration to provide relief for the specific program commitment, hardship, and meritorious cases of the types illustrated by the foregoing list. Such actions can and should be taken promptly. They do not require any further legislation. Adequate contract authority is available, particularly for Rent Supplements and Sections 235 and 236. To the extent more authorizations are needed to grant relief in public housing or FmHA cases, we urge the enactment of legislation providing such authority.

15. CONTINUANCE OF OEO PROGRAMS FOR ASSISTANCE TO SUBSIDIZED HOUSING

We oppose the discontinuance of the programs of the Office of Economic Opportunity which have provided vital support and assistance for housing in urban and rural areas. This has included grants to aid in the initiation and development of non-profit housing. It also includes the social and medical services funded or provided through OEO for housing designed to serve those of low and moderate incomes.

The continuance of such support for tenant services in public housing and other subsidized projects is essential to improve the quality of life and achieve better communities. Without such continued social and medical assistance to the residents, great damage could result to existing public and other subsidized housing.

16. HUD-ASSISTED HOUSING PROGRAMS WHICH HAVE GENERALLY BEEN EFFECTIVE

Studies show that the Section 235 and 236 programs have generally been effective in meeting their objectives and that their continuance is imperative to provide housing which is urgently needed by those of moderate incomes. Most of the complaints and criticisms about these programs did not involve new construction or rehabilitation of housing under Sections 235 and 236. They primarily involved existing housing -- much of it under unsubsidized programs -- where there were instances of overcharging and failure to meet proper standards.

The adoption of the consumer amendments in the House Bill -- H.R. 16704 as reported last year by the House Banking and Currency Committee -- will help assure that past abuses and difficulties in these HUD programs will be avoided. We support those amendments which provide that all housing receiving HUD assistance or mortgage insurance must be of good quality and at reasonable prices and rents. We also support the other improvements in housing subsidy programs which were in the Housing and Urban Development Bill of 1972 that passed the Senate last year, but did not reach the House Floor for action last year.

The proper procedure for the re-evaluation of HUD-assisted housing programs is through the legislative process, including Committee hearings and Congressional debates, with Presidential action on the Bill as it passes the Congress. It is hoped that the Administration will present its proposals to the Congressional Committees and that other witnesses will have an opportunity to respond to them. The HUD-assisted programs should be continued with modifying amendments which will improve them. Pending such Congressional modifications, these programs should be continued in force to avoid the disastrous results which would result from their present suspensions or terminations by the President.

These NHC conclusions are supported by Senator Sparkman in the statement he made in the Senate on January 31, 1973. As indicated in a quotation below, Senator Sparkman states that the Congress has been constantly alert to weaknesses that develop in housing and urban development programs and that it has corrected them as they were brought to its attention. He points out that the 1972 Housing Bill that passed the Senate had many outstanding improvements to make the subsidy programs more efficient and effective in solving the housing problems of the Nation. Senator Sparkman concludes that many of the problems are not due to the design of the basic law, but the HUD maladministration of the law.

In a speech before the National Housing Conference, Senator Sparkman made the following additional rebuttal concerning the charge that foreclosure rates have been excessive in these programs:

"Adverse publicity would lead one to believe that the construction of subsidized housing has been shoddy and defective and that the default and foreclosure rate is excessive.

"Most of this publicity arises out of a few extremely bad local situations. Particularly cited is Detroit, where speculators had a heyday; also, where the courts intervened and put a few in jail. The facts are that the Detroit cases were almost completely insured under the non-subsidized 221(d)(2) program which, by the way, was not affected by the cutoff.

"Foreclosures under the 235 and 236 programs are surprisingly low. Under 235, the foreclosures and assignment rate for Fiscal Year 1972 was about 4 percent. Under Section 236, the rate was 1.8 percent."

17. HOUSING ALLOWANCE PROGRAM IS NOT AN ACCEPTABLE SUBSTITUTE

HUD has activated a two-year experimental program under the 1970 Act to determine the feasibility of a Housing Allowance Program. We urge that this program involve explorations to determine whether federal housing allowances will add to the inadequate supply of standard housing and whether adequate housing can be provided at a cost which does not exceed the cost under existing programs. We are also concerned about federal housing allowances inflating housing charges by creating competition for a limited supply of housing. Until the results of the HUD experimental program are available and determinations are made on these major questions, we recommend that there be no further expansion of the Housing Allowance Program.

There have been proposals that a Housing Allowance Program be adopted to replace present housing subsidy programs. The Housing Allowance Program should not be regarded as an acceptable substitute for present programs.

If housing allowance funds were recommended in amounts sufficient to take care of all people of low and moderate incomes in need of decent housing, the immediate impact on the Budget would be so large as to preclude the likelihood of its approval by the Executive Branch and the Congress. Moreover, if such a program were adopted, it would greatly inflate the charges for the limited supply of available housing which meets proper standards. If we tried to produce all of this housing at one time to meet the needs of all who would qualify for housing allowances, there would be an inflation in the cost of the land, materials and labor required to produce the housing.

The only way to avoid such inflation would be through a program which would make housing allowances available gradually on a small scale. However, when checks are being mailed for housing allowances, all people who are eligible will want and expect their checks when a distribution starts. This is different from the present programs where the subsidies are properly tied to the additional housing production which is required. People understand that they have to wait their turn until the additional housing is produced at an annual rate which is geared to the productive capacity of the building industry and which avoids inflating housing costs.

18. PRESIDENT'S ACTIONS ARE UNWARRANTED AND UNJUSTIFIED

In a speech on the Senate Floor on January 31, 1973, Senator Sparkman brought to the attention of the Senate the recent announcement by the President of an 18-month moratorium on most of our Federal housing and urban development programs. He stated:

> "The first shock of the President's proposed moratorium came from a rumor around the end of last year. In an attempt to forestall it, I sent a telegram to the President on December 29 pointing out that a plan to cut off subsidies for housing would be a clear violation of the intent of Congress and the housing laws requiring Federal assistance for the elimination of slums and blight and the provision for a decent home for every American family. It would also represent a breach of faith on the part of our Government to the poor and ill-housed of the Nation and could seriously affect unemployment and the economy."

The White House replied to Senator Sparkman's telegram by a letter written by Mr. Kenneth R. Cole, Jr., Director of the Domestic Council, who stated that the President had asked him to respond to the Senator's telegram. These communications and Senator Sparkman's remarks appear in the excerpt from the Congressional Record of January 31, 1973 attached hereto as Exhibit "A". We will summarize and respond to each of the points made in Mr. Cole's letter.

In the announcement concerning the moratorium, Mr. Cole's letter states that the moratorium is intended to provide an opportunity to reevaluate the current programs. We urge that this evaluation of present programs proceed with all possible dispatch, while existing programs are continued in operation during a transition period. We offer the Administration the full resources of our organization to help in the study and evaluation of existing programs. We hope that the Administration will avail itself of this opportunity to obtain the benefit of the knowledge and experience of NHC which have been involved in these programs for so many years.

(a) Mr. Cole's letter states that the moratorium is intended to provide an opportunity to re-evaluate the current programs and that the suspension will stop further spending commitments until better programs can be designed.

We believe that the proper procedure for the re-evaluation of HUD-assisted programs is through the legislative process. The Administration should present its proposals to Congressional Committees, so that other witnesses will have an opportunity to respond to them. After Congressional hearings and debates, the Congress should act and send the Bill it passes to the President for his action. This is the procedure which Senator Sparkman intends to pursue on 1973 housing and community development legislation as he stated on the Senate Floor. Pending such Congressional modifications, these programs should be continued in force to avoid a disastrous effect on housing and community development programs and the serious impact on the Nation's economy and human welfare.

(b) Mr. Cole's letter states that the suspension of housing programs will not involve an abrupt cessation of subsidized housing production, which will continue at an annual rate of about 250,000 for the next 18 months. He further states that the proposed rate of housing production should prevent start-up problems for alternative housing programs which may begin later.

We wish to point out that -- as shown in the President's budget -- the housing starts for Fiscal 1973 will be 62,000 units less than in Fiscal 1972 and 102,000 less than in Fiscal 1971. For Fiscal 1974, the housing starts will be 98,000 less than Fiscal 1972 and 148,000 less than Fiscal 1971. This indicates the drastic cuts in housing starts resulting from the impoundments and suspensions of HUD-assisted housing programs. Mr. Cole's letter only discusses the rate of housing starts. These are attributable to projects that are already in the pipeline and were previously initiated. To get a true measure of the effect of the President's impoundments and suspensions to housing programs, we must look at the reductions in the program levels of housing for low and moderate income groups.

The program levels in Fiscal 1973 will be 232,000 units less than they were in Fiscal 1972. The program levels in Fiscal 1974 will be 397,000 units less than they were in Fiscal 1972. Thus, there will be a cut of 629,000 units in HUD-assisted housing commitments made during the eighteen month period until June 30, 1974. The total economic impact of this cut will be a reduction of $27 billion in expenditures and 3 million man years in employment. These figures do not include the impact caused by the impoundments and budget cuts in the community development programs.

The foregoing Presidential suspensions and impoundments will have an adverse and serious impact on the economy in both Fiscal 1973 and 1974. However, the most disastrous effect will occur in Fiscal 1975, starting the middle of next year. The reductions of $27 billion in expenditures and 3 million man years in employment due to the lower program levels of HUD-assisted housing -- in addition to the further impact of suspending or terminating community development programs and suspending other social, health, and welfare programs -- will contribute to the possibility of a recession occurring before the middle of next year as forecast by some leading economists.

There is a time lag in a typical project of as much as eighteen (18) months from the initiation of a project to the start of construction. The housing starts for Fiscal 1973 and 1974 will use up the pipeline of projects previously initiated and committed. By Fiscal 1975, there will be no pipeline of previously committed projects. Even with the present productive capacity to initiate and develop projects, it would then take about eighteen (18) months to get projects to the start of construction. However, if all HUD-assisted programs are suspended, there will be a destruction of that productive capacity which is now initiating HUD-assisted housing. Then we will be unable to achieve housing starts for an even longer period following the lifting of a moratorium and the effective date of modified or alternative housing programs.

(c) Mr. Cole's letter states that the President intends to meet the commitments to the elderly, the Indians, disaster victims, local governments, and Federal programs, among others.

In his speech, Senator Sparkman points out that without continuing Federal assistance for housing, there will be a breach of faith on the part of our Government to the poor and ill-housed of the Nation and the Nation's cities will be frustrated in carrying out their public improvement programs. He also points out that the sudden cut off of commitment authority will be financially disastrous to the thousands of sponsors who have already invested heavily in preparing plans for housing projects.

It is not enough to merely honor legal contract commitments or specific program commitments and the HUD-qualified feasibility letters issued by January 5, 1973.

Even though sponsors, public agencies, and private developers have not received such commitments or HUD-qualified feasibilities, they had a right to rely upon the laws enacted by the Congress and signed by the President, which laws were implemented by Executive action. They acted in good faith. Often they received funding and other assurances on their projects from the HUD officials administering the programs. In some cases they received feasibility letters between December 15, 1972, and January 5, 1973 which HUD later withdrew because it determined there had not been quality processing.

These sponsors and developers made large expenditures in acquiring land, preparing plans and filing applications. There have been changes of plans by the consumers awaiting occupancy of the housing. The impoundment of appropriated funds and contract authority and suspension or termination of programs should not be retroactive with respect to pending plans, applications, and projects of intended participants in the programs. Since no action was taken to repeal or modify the laws authorizing these projects, commitments should be issued by HUD to complete these projects and avoid disastrous losses to participants in the programs; also to provide decent housing for the families living in sub-standard housing who cannot afford such housing without the Federal assistance.

(d) Mr. Cole's letter states that "most critics hold the misguided view that the poor are actually benefiting from all the programs now". He further states that "the present system ... does not serve the intended beneficiaries, the poor." He also states that "the programs have not improved greatly either their housing or their living environment."

All of the housing programs are not intended to serve the poor. The Section 235 and 236 programs serve those of moderate incomes. This is the income group intended to be reached by the interest subsidy available under these programs. Those subsidies are not large enough, and were never intended to be, to reach the poorer income group. As to the poor, both the public housing and rent supplement projects provide larger subsidies which do reach them as the intended beneficiaries. On the Senate Floor, Senator Sparkman made the following statement concerning the improvements achieved in the quality of housing for low- and middle-income families over the past twenty (20) years:

> "The other issue is, of course, the effect of the elimination of these programs on our people and the damage to the progress that we believe is being made on the elimination of slums and blight in our cities and on the attainment of a decent home for every American family.
>
> "Contrary to criticisms (of) some of our housing and community development programs, I believe they have been effective and have, for the most part, served their purpose. The quality of housing for low- and middle-income families in this Nation have steadily improved over the past 20 years.
>
> "We have been able to eliminate many deplorable slums and I believe have made reasonably good progress toward the national housing goal."

(e) Mr. Cole's letter states that the President is committed to seeing that the Federal Government meets its legitimate responsibilities in housing, but that the solutions must be equitable. They must serve the taxpayer and the needy. He further states that the present programs have created false expectations and disappointments, so we need alternatives that meet the real needs.

We do not agree that the present programs have created false expectations and disappointments. Evidently the Administration believes that it isn't fair to the taxpayer or intended recipients to have a program which serves only some of those who fall within the group intended to be benefited. At any point in time, the housing program can serve only those who apply and qualify for the amount of housing provided with the funds then available. As to those who cannot be taken care of at that given point in time -- because an insufficient number of housing units have been produced by that time -- the programs evidently are regarded as having created false expectations and disappointments.

If we accepted that position, we would be led to the conclusion that if you can't build enough housing to serve everyone at any one time, then we shouldn't build any assisted housing and shouldn't help anyone. In short, we should either serve all of the poor at the same time or none of them.

It is not possible to build all of the necessary housing at one time, nor is it desirable to do so, because this would over stimulate the economy and contribute to inflation. The rate of housing construction should be geared to the productive capacity of the construction industry and the availability of manpower and materials. The goals in the 1968 housing law contemplate serving all in need of housing by building at a certain rate over a ten-year period. It hardly serves the poor to stop a program which will add each year a supply of housing at a monthly cost which the poor can afford, particularly when the annual production over a ten-year plan is geared to produce enough to meet all of the housing needs.

NHC supports those provisions in the existing law which provides housing programs which not only serve the poor, but also serve those of moderate incomes who cannot afford to obtain decent housing without Federal assistance. We should not discriminate against people who are trying to help themselves by working and earning as much as they can and staying off the welfare rolls. Often this involves employment by both the husband and wife.

Yet many of these self-reliant families do not earn enough to afford decent housing. The amount of the assistance is reduced as family incomes increase. With the upward mobility of these families, many reach the point where they no longer require interest assistance after a few years.

The present housing programs are fair and equitable because they do not discriminate against the moderate income group by denying them decent housing which they cannot afford, while at the same time providing decent housing for poorer families who require substantially higher subsidies. As recommended in our main legislative Report, we urge that future housing projects serve a cross section of income groups, including those of both the low and moderate income groups. As a matter of public policy, this is vitally important to help achieve more wholesome and stable housing communities.

(f) Mr. Cole's letter states that the program structure we now have cannot possibly yield effective results, even with the most professional management. Also, that the programs, for the most part, have proven ineffective in meeting housing needs.

As Chairman of the Senate Committee which has held extensive hearings on housing and urban development programs, Senator Sparkman has closely followed the progress of these programs. We quote his conclusions concerning their operations which are a full and complete answer to Mr. Cole's statement that present programs have been ineffective:

"I know there have been weaknesses in some of our housing and urban development programs. Some of these are due to deficiencies in the law but we are constantly alert to such matters and have corrected them as they are brought to our attention.

"I do not deny that considerable more work needs to be done and, in fact, the 1972 housing bill that passed the Senate but failed in the House had many outstanding improvements to make the subsidy programs more efficient and effective in solving the housing problems of the Nation.

"The most serious blasts have been leveled at the FHA interest subsidy programs which for the most part have been motivated by apologists for maladministration in HUD and by those who are unduly concerned about the long-range budget impact. The implications have been that they are not effective and are not serving the family groups for whom they were intended, and are wasteful of subsidy funds.

"Most of these charges are false. For example, everyone has read about the serious FHA foreclosures in the run-down areas of Detroit. Misinformation was spread that the fault was in the FHA section 235 interest subsidy program, and no one from the administration took the trouble to correct the record that it was not the section 235 program but the nonsubsidized section 221(d)(2) program. This latter program requires meticulous staff administration in inspecting older homes and in counseling lower income families seeking homeownership. This was not done in the Detroit FHA office.

"The problem was not the design of the basic law but the administration of the law. It was demonstrated time and again that, if the HUD staff had functioned as required, the massive defaults would never have occurred.

"One of the most effective programs for the people in small towns cut off by the President's order is the water and sewer grant program. I know of no scandal or substantive criticism ever made in this program and it is one of the most desirable programs on the books to help so many people get clean water. I can not understand why it would be cut off."

(g) Mr. Cole's letter states that the President is firm in his commitment to unite the community development programs into an Urban Community Development Revenue Sharing Program. Until the development activities are folded into the revenue sharing proposal, he states that there will be a suspension of new commitments for grants for water, sewer, and open space and for public facilities loans.

In fact, the President's budget terminated all of the categorical grants for community development programs as of either January 5, 1973 or June 30, 1973. Moreover, the budget does not contemplate that any funds would be made available under the proposed special revenue sharing for community development until Fiscal 1975, so there would be no funding for either the categorical grant or special revenue sharing programs involving community development during Fiscal 1974.

Mr. Cole's position this year represents a retreat from the program which the Administration supported last year. Last year, the Administration recommended that

the categorical grant programs be continued during a transitional period until the community development special revenue sharing system became effective.

There is an urgent need to maintain adequate and uninterrupted levels of community development activities during any period of transition from the categorical grant system to the block grant system of special revenue sharing. There should be no reduction or disruption of the activities which are necessary to maintain and continue adequate community development programs.

Last year, NHC supported the community development special revenue sharing system as embodied in the Bill enacted by the Senate, but which did not reach the House Floor for action. However, our support of that legislation was and is conditioned upon the continued availability, at an adequate level, of categorical grants for community development programs until special revenue sharing becomes effective. We recommend that any legislation providing for a community development revenue sharing program include provisions for the release of the President's impoundments, suspensions, and terminations on HUD-assisted housing programs and community development programs.

19. MORATORIUM EXCEPTIONS FOR FmHA PROGRAMS

Viewed against the concepts spelled out in Mr. Cole's letter as forming the basis of the President's housing decision, the Farmers Home Administration subsidy program should be granted exceptions from the moratorium.

There is no transitional period for the construction of subsidized rural housing since there is no pipeline in the FmHA process as there is in the HUD process. As the Department of Agriculture itself noted in its news release of January 9, all construction activities in rural areas will come to a halt at the end of the coming spring building season. Thus, there will be no opportunity in rural areas to ease the impact and prevent start-up problems for alternative housing programs which may begin later as there is in the urban programs.

The Farmers Home moratorium makes no reference to the HUD exceptions referred to in Mr. Cole's letter for elderly or local government programs of which housing may be an essential part.

No questions have been raised as to the ability of Farmers Home to administer its programs. The Farmers Home programs have few fiscal failures. The homeownership foreclosure rate is less than two per thousand units and dollar losses are less than a half percent of loaned funds.

In building viable rural communities, a healthy home-owning tax base is to be encouraged. This has been accomplished by the 502 programs with and without interest credit.

Mr. Cole's letter to Senator Sparkman appears to ignore the needs and conditions of rural areas.

20. OPERATING SUBSIDIES TO MEET DEFICITS IN PUBLIC HOUSING PROJECTS

As previously stated, the suspension of HUD-assisted housing programs as of January 5, 1973 did not apply to the payment of operating subsidies to meet deficits in public housing projects. The President's budget contemplates the payment of

$350 million of such operating subsidies for Fiscal 1973, but it reduces this amount to $280 million for Fiscal 1974. It is imperative that at least $500,000,000 be appropriated for each of Fiscal Years 1973 and 1974 for operating subsidies in public housing projects.

These operating subsidies are necessary to offset the loss of rental income in public housing which has resulted from the Federal statutory limit -- the Brooke Amendment -- placed on the percentage gross income to be paid by the tenants of public housing units. The Federal Government is committed to make these payments under contracts made by it pursuant to Federal laws. Sufficient operating subsidies should be provided to every public housing agency to cover:

(a) adjustments for inflation;

(b) reimbursement for losses on welfare families and others whose rentals were reduced by the limitations in the Brooke Amendment;

(c) establishment of adequate operating reserves which should be at a level -- approved by HUD in the past -- which would equal 50% of the operating budget for routine expenses of the housing authority; such increase in the operating reserves to be achieved over a period of five (5) years;

(d) payments in lieu of local taxes of 10% of shelter rents including the operating subsidies which offset reductions in such rents required by the Brooke Amendment;

(e) deferred maintenance;

(f) modernization; and

(g) tenant services.

All funds authorized for operating subsidies should be promptly released. There should be forward disbursements in a manner to assure that the operating subsidies are received by every local public agency in time to meet its payroll and bills and to fulfill its obligations as they become due. Moreover, the required amounts of subsidies should be determined in a realistic manner, taking into account present price and pay levels and operating costs.

NHC recommends the following amendments in Federal laws relating to the matters described in the succeeding paragraphs under this heading which -- together with the full payment of operating subsidies as urged above -- are necessary to avoid the bankruptcy of local housing authorities and to restore their financial stability:

(a) The total rents in all of the housing projects of a local housing authority should represent 20% of the total net income of all its tenants. Housing authorities should have local autonomy to establish graded rents for different families to meet this requirement.

(b) Welfare programs should be required to pay rents of welfare tenants in public housing in an amount which is not less than the operating costs attributable to the dwelling based on the operating cost experience with all of the public housing administered by a local housing authority. Welfare programs shall be required to pay an additional amount to cover the difference between the required rent under existing formulas and such current operating expenses.

(c) To the maximum extent possible, each housing authority should be required to have families in their projects which will serve a cross-section of income levels within the low income range. At least 20% of the units should be occupied by very low income families. Over-income families should be permitted to continue in occupancy, provided that they pay 25% of their net income as rent up to the market rent as a maximum.

(d) There should be a coordinated program between HEW and HUD to achieve the foregoing objectives concerning the payment of rents of welfare tenants who live in public housing, along with such necessary adjustments as may be required by law.

(e) There should be an increase in the authorizations for the construction of additional public housing and a perfection of the existing public housing programs in light of our experience, as recommended in Chapter D of the Appendix to the separate NHC report on legislative proposals.

21. OMB PROPOSED CHANGE IN TAX-EXEMPT STATUS OF BONDS OF STATE HOUSING AGENCIES

We oppose the present proposal of the Office of Management and Budget contained in its Circular A-70 which would appear to prohibit HUD from participating in any activities of any state or public housing finance agency which derives any of its funds from the issuance of bonds hereafter that are exempt from Federal taxation. The adoption of the OMB Circular A-70 would cause further reductions in the construction of housing for those of low and moderate incomes.

22. WIDESPREAD PRESIDENTIAL IMPOUNDMENTS, SUSPENSIONS AND TERMINATIONS OF PROGRAMS ARE CONTRARY TO CONSTITUTION AND LAWS OF UNITED STATES

(a) The widespread actions taken by the President in impounding appropriated funds and contract authority and suspending and terminating programs are contrary to the Constitution and the laws of the United States. They infringe upon the legislative powers vested in the Congress and upon the Constitutional separation of powers. They violate the Constitutional provision that the President "shall take care that the laws be faithfully executed." We agree with the following statement in the 1969 memorandum of William H. Rehnquist when he was an Assistant Attorney General: "With respect to the suggestion that the President has a Constitutional power to decline to spend appropriated funds, we must conclude that existence of such a broad power is supported by neither reason nor precedent." The new Deputy Attorney General appointed by the President has reversed the opinion previously given by Mr. William Rehnquist who is now a member of the Supreme Court of the United States. We disagree with this reversal by the new Deputy Attorney General for the reasons set forth below.

(b) The housing and community development programs which the President has suspended or terminated were enacted by laws which passed the Congress after customary committee hearings and Congressional votes and were either signed by the President or enacted into law by overriding a veto of the President. After enactment of the substantive legislation, a

separate appropriation law was likewise enacted by the Congress and signed by the President which included the appropriation of funds or contract authority to implement the legislative authorizations.

(c) Following the passage of the legislative and appropriation acts, the Executive Branch took action to implement the programs and promulgate the necessary regulations, directives, and procedures. Those intended to participate in the programs then acted in reliance upon the laws so enacted and implemented by the Executive action. Often this entailed large investments by public or private developers or changes of plans by consumers who properly expected, and relied upon, the assistance being made available as provided by law.

(d) Without any action being taken to repeal or modify the laws in a manner prescribed by the Constitution, the President unilaterally took action to stop any further commitments or actions to carry out all of the HUD-assisted housing and community development programs listed above, each of which was authorized by a Federal law and appropriation.

(e) This action did not involve merely a cut in the level of each of these programs by some portion of the funds or contract authority available for commitment. Instead, the President completely suspended or terminated these programs from and after designated dates. The net effect of the Presidential action was equivalent to the repeal of the Federal laws relating to each of these programs. Clearly, the President does not have the power unilaterally to repeal all these laws, because the repeal of a law requires that same type of action as its initial enactment. It is equally clear that the President cannot, by indirection, accomplish the same purpose through a unilateral suspension or termination of all further commitments under the programs established by these Federal laws.

(f) The Administration has cited some historical precedents for impoundings by Presidents. However, these generally related to delaying or curtailing expenditures. Instead of a partial reduction in the level of commitments and expenditures, there is a complete stoppage of further activity in a large number of programs through their suspension or termination. There have been some isolated historical instances where an individual authorization of funds was wholly impounded. However, we know of no historical precedent for such a complete stoppage by Presidential action of so many programs covered by so many laws enacted by the Congress. In a speech on the Senate Floor, Senator Sparkman talked about the basic issue of the:

> "authority of the Executive to suspend, terminate, or impound funds or programs duly authorized by law. I am sure that Members of the Senate are very much aware of this issue and recognize the necessity of facing up to and developing a policy on how to cope with it.
>
> "In the past, Presidents have impounded certain funds due to contingencies that arose subsequent to their appropriation by the Congress. Although individual Members often disagreed with the judgment used by the President in such cases, the Congress has not felt the need for specific action to clarify the authority. This year, I believe it is different. The extent of the Presidential action, not only in impounding funds, but in outright termination of

statutorily authorized programs, raises a broader question. I am pleased that Senator Ervin's Judiciary Subcommittee and Senator Chiles' Government Operations Subcommittee are conducting hearings on this matter which may lead to a resolution of it."

(g) These Presidential impoundings are part of a broad pattern covering the stoppage of many of the social, health and welfare programs of the Federal Government, with particular deprivations among the underprivileged who most need help. In the case of housing and community development, the President has suspended nine (9) programs and terminated six (6) others. These fifteen (15) programs cover virtually all of the subsidy programs in HUD.

(h) It happens that these stoppages are occurring in programs involving housing intended to benefit people of lower income, along with other social, health and welfare programs. Such actions represent major decisions of national policy concerning the priorities which should be followed in allocating Federal funds and resources for commitment and expenditures within the budget. Surely this is a matter which has so great an impact upon the Nation that it must be determined not by the Executive Branch alone, but by action through legislation.

(i) To better enable Congress to exercise its proper Constitutional powers and responsibilities concerning legislation and appropriations, we support and urge the enactment of The Impoundment Control Bill, S. 373, introduced by Senator Samuel J. Ervin, Jr. Senator Ervin explains the need and purpose of his Bill in an article appearing in The Washington Post, February 19, 1973:

> "The Impoundment Control Bill, S. 373, which is cosponsored by more than half of the Senate, requires the President to notify the Congress of impoundment actions, and requires him to cease such action unless the Congress has affirmatively approved it within sixty (60) days. To my mind, the President should welcome the passage of this Bill, because it would give him an opportunity to convince the Congress that it has over-funded specific programs and would give the Congress an opportunity to reassess its priorities and to rearrange them if such action seems desirable. . .
>
> "Impoundment amounts to government by decree, and if the practice is permitted, the collective voice of 535 members of Congress could be overridden by one man. That would be government without law."

(j) We support the Impoundment Control Bill and other pending bills -- including the House Bill introduced by Congressman George H. Mahon, Chairman of the House Appropriations Committee, which is co-sponsored by House Speaker Carl Albert -- which have the same objective of requiring the President to cease impoundings which are not approved by Congress. Legislation of this type should make it possible to continue operations under existing Federal laws relating to the HUD-assisted housing and community development programs unless and until the Congress concurs in program impoundings. The legislation should make it clear that its provisons apply to (i) appropriated funds, (ii) contract authority in appropriation and other legislative acts, and (iii) suspensions and terminations of programs authorized by law. For all of the reasons set forth above, it is necessary that these HUD programs be continued in operation during the period until they are modified or new HUD programs become effective pursuant to legislative enactments.

ADDENDUM

RELATING TO RESOLUTIONS ON LEGISLATIVE POLICY

1. On Page 1 of the Resolutions on Legislative Policy, in Paragraph 1 under Chapter 1, make the following changes:

   A. Delete the first three lines and substitute:

   The President's budget contemplates the amount of $350 million for operating subsidies to meet deficits in public housing projects for Fiscal 1973, but it reduces this amount to $280 million for Fiscal 1974. It is imperative that at least $500 million be appropriated for each of Fiscal 1973 and 1974 for operating subsidies in public housing of projects. These amounts are necessary to meet deficits in public housing projects, including:

   B. Delete clause "c" and substitute:

   (c) establishment of adequate operating reserves which should be at a level -- approved by HUD in the past -- which would equal 50% of the operating budget for routine expenses of the housing authority; such increase in the operating reserves to be achieved over a period of five (5) years;

   C. Change the period at the end of the first sentence to a semi-colon and add the following:

   (e) deferred maintenance;

   (f) modernization; and

   (g) tenant services.

2. On Page 2, in Paragraph 4, substitute:

   "programs" for "departments"

3. On Page 2 of the Resolutions on Legislative Policy, strike Paragraph 4 and substitute the following new Paragraph 4:

   4. Welfare programs shall be required to pay an amount on behalf of any welfare tenant in public housing which is not less than the operating costs attributable to the dwelling based on the current operating cost experience with all of the public housing administered by a local housing authority. Welfare programs shall be required to pay an additional amount to cover the difference between the required rent under existing formulas and such current operating expenses.

4. On Page 2, insert the following new paragraph and renumber paragraph 6:

   6. There should be a coordinated program between HEW and HUD to achieve the foregoing objectives concerning the payment of rents of welfare tenants who live in public housing, along with such necessary adjustments as may be required by law.

5. On Page 11, insert the following new paragraph at the beginning of Paragraph 39:

Last year, NHC supported the community development special revenue sharing system as embodied in the Bill enacted by the Senate, but which did not reach the House Floor for action. However, our support of that legislation was and is conditioned upon the continued availability, at an adequate level, of categorical grants for community development programs until special revenue sharing becomes effective. We recommend that no legislation be enacted for a community development revenue sharing program unless it contains provisions for the release of the President's impoundments, suspensions and terminations on HUD-assisted housing programs and community development programs.

The CHAIRMAN. The next witness will be Mr. Arthur Abba Goldberg, representing the Section 23 Leased Housing Association.

STATEMENT OF ARTHUR ABBA GOLDBERG, PRESIDENT, SECTION 23, LEASED HOUSING ASSOCIATION; ACCOMPANIED BY CHARLES L. EDSON, GENERAL COUNSEL

The CHAIRMAN. We will be glad to hear from you, sir.

Mr. GOLDBERG. Thank you, Senator Sparkman.

There has been a prepared statement which is, I believe, with the staff of the committee. I will be departing in many places from that prepared statement.

The CHAIRMAN. Yes; we will insert it in the record (see p. 829).

Mr. GOLDBERG. Mr. Chairman, and members of the committee, my name is Arthur Abba Goldberg. I am here today in my capacity as president of the Section 23 Leased Housing Association. In that today is the 23d day of July, I must wonder about testifying on the section 23 program. We hope that the similarity of day and section number is a good omen; not a bad omen.

In my private capacity, I am vice president, Matthews & Wright, Inc., a New York City investment banker specializing in tax exempt financing of public purpose projects. I am accompanied by Charles L. Edson, Esq., of Frosh, Lane & Edson, P.C., Washington, D.C., general counsel to the Section 23 Leased Housing Association.

The association includes developers, financial institutions, and local housing authorities who either develop, finance, manage, and/or lease housing for low-income Americans under section 23 of the U.S. Housing Act. Officers represent financial institutions, LHA's and developers in the States of New York, California, Maryland, Tennessee, and Kansas. Twelve directors further represent an additional cross section of geographical areas and professional capacities.

Our organization, formed in early 1972 with 5 members solely from the private sector who believed in the viability of this little-known program, now has nearly 50 members covering a broad spectrum of both private industry and local housing authorities. Many of the members are institutional which means that they may have four or five individuals actually participating in the organization.

In addition to representing the interests of the section 23 program before Congress and HUD, the association publishes a monthly newsletter, conducts seminars, and otherwise serves as an information service about the program.

We attribute our remarkable growth—more than tenfold in the past year, and in not the best of times—not so much to the merits of our association but to the inherent strength of the section 23 program in housing low-income Americans.

A few statistics chart the significant role that section 23 plays in housing low-income Americans. As of December 31, 1972, a total of 151,000 section 23 units were under annual contributions contract—ACC—out of the approximately 1.25 million total public housing units under ACC. Of these, 66,000 are units that have been, or will be, constructed by private owners specifically for the purpose of leasing to an LHA. An additional 27,000 of these units have been rehabilitated and then leased to local authorities and 59,000 are in existing struc-

tures. This impressive total—over 12½ percent of all units under ACC—has been reached in the 8 years that section 23 has been part of the U.S. Housing Act, thus showing the popularity and effectiveness of this vital tool of housing policy.

The section 23 program has been popular across the board. The policymakers, Congress, demonstrated their support by their 1970 requirement that at least 30 percent of all new housing units be under the leasing program. The implementers, the administration, at least until January of 1973, had emphasized the program, especially its construction for leasing aspects. The commentators, for example, the Urban Institute, in its comprehensive study of the program, gave the program a most favorable report as published in the "Compendium of Papers" submitted to the Joint Economic Committee, Congress of the United States of October 9, 1972.

What are the factors which we identify as contributing to the program's success?

First, it involves an ideal joint venture between local government and private enterprise, using the best expertise of both sectors. The units are owned privately, not by the LHA. The private owner generally manages the units itself or is responsible to insure that the management is done properly. In the cases where a unit is managed by the local housing authority under contract with the private owner, the local housing authority will receive extra compensation, thus enabling it to hire more personnel and therefore manage the housing more effectively. This "partnership" between the private owner and the local housing authority serves as a check on each other to assure proper maintenance of the units and that all other provisions of the lease will be adhered to. This beneficial watchdog relationship is not present in any other Federal program.

Another watchdog aspect of the marriage of private enterprise and Government involves the method of financing section 23 projects, whether it is done by banks or savings and loan institutions under a conventional mortgage loan or through the issuance of tax-exempt bonds of a nonprofit corporation formed for the purpose of supplying the housing to an LHA. The financing of section 23 is done privately and thus affords another check on quality of housing and the continuity and maintenance aspects. The lender has the obvious interest of protecting his loan and therefore must be concerned with the quality of both the initial construction and the long-term management.

My firm, Matthews & Wright, Inc., does a great deal of this financing, and we require constant reports from both the nonprofit owner and the local housing authority as to the quality of housing, as to maintenance, as to rent roles, and as its general economic feasibility. I am sure that we are representative of the industry in this regard.

Second, units leased to an authority under section 23 pay full advalorem real estate taxes unless the community voluntarily abates it. Conventional public housing requires a payment in lieu of taxes—usually 10 percent. Accordingly, many communities welcome a section 23 project when they would not accept other forms of public housing. Indeed, section 23 could be considered a precursor of special revenue sharing, a concept whose applicability to housing is under serious examination.

Community acceptance is also enhanced because of the frequency with which the scattered site concept is employed in this form of housing. I am familiar, for example, with a project in Oklahoma which involves more than 150 units scattered in 7 different counties on 17 different sites.

A third factor is the fact that the cost of section 23 housing is generally less per unit than on the Turnkey or conventional. The Urban Institute's study previously referred to found this to be the case; to be fair, however, we should note that this study dealt mainly with the leasing of existing units.

Concerning leasing of new units, the U.S. Housing Act limits the amount of HUD's contribution to the same amount that it could make on a Turnkey or conventional project. Considering that section 23 projects generally have to pay local property taxes as opposed to the payment of in lieu of taxes—Pilot—then obviously there is less money available under section 23 for the other elements of housing cost. Also, since the development costs must be amortized in 20 years rather than 40, less overall money is available for construction. Yet section 23 units are being built, and, as previously indicated, have a good track record.

In speaking of development costs, there has been developed under the section 23 program a variation that has significantly aided feasibility of these projects and therefore the overall production of section 23 projects; that is, tax-exempt bond financing. This occurs because the tax-exempt rate of financing is usually 1½ to 3 percent lower than conventional rates or stated another way, carries about a 25-percent lower interest rate; in addition, it does not involve the same amount of "front-end points" that conventional financing does, thus further reducing the financing costs. Moreover, the stock of housing units which would be owned by a local housing authority will be increased because of the requirements of revenue ruling 63–20, which sets forth the rules for this form of financing. Under the typical variation of this plan, a nonprofit corporation is formed to construct a project and lease the units therein to a local housing authority under section 23. As the nonprofit corporation is performing a public purpose on behalf of the governmental entity, it can issue bonds exempt from Federal income taxation. The IRS requires that after the bonds are amortized, which is after the 20-year term of the lease, the nonprofit units give the units, free and clear, to the local housing authority. As a result, the housing authority increases its housing stock at no extra expense to either the local taxpayer or the Federal Government.

In any event, in the leasing program, regardless of form of financing, the Federal Government has to make annual contributions or payments for only 20 years instead of 40 as in the 236 or turnkey programs. This results in a significant long-run savings to the Federal Government. Further, there is much to be said for the shorter amortization period, especially at this time, when long-range costs are of great concern.

Fourth factor, section 23 provides housing faster than the other public housing methods. Significantly, this is true for newly constructed units as well as in the case of existing units. At least this was the case before some area offices of HUD began imposing some of the stringencies of the turnkey program on section 23 because of the

central office's attempt to draft its proposed construction for leasing handbook.

Fifth factor is that section 23 is an extremely flexible program, adaptable to any particular community need. It can be used for family or elderly housing on either a project or scattered site basis. It can be used to rent existing units or new ones constructed for that purpose if there is otherwise a tight rental market. It can be combined with the Farmer's Home section 515 program, or the HUD 236 program or with State housing finance agency programs. It works equally well in our center cities or rural areas. HUD has recommended its use for congregate housing projects for the elderly whereby an LHA rents units served by a central dining facility. It has also been utilized to rent units in nursing homes, a concept which can be expanded to renting units especially designed for the handicapped, the retarded, or for alcoholic rehabilitation.

Under turnkey IV, or section 23(g), leased housing can be combined with home ownership. The program has often been utilized on Indian reservations.

Of extreme relevance, the section 23 concept allows for both local decisionmaking and imagination, a concept that should be at the heart of any new housing policy.

Sixth, section 23 is not subject to the referendum requirement imposed on other public housing programs in States such as California or Mississippi. Thus, it is not surprising that as of June 1972, 25 percent or, 26,000 units of the 100,000 section 23 units under management, were located in California. Mississippi also has a disproportionately high number of leased units.

Finally, section 23 embodies the beneficial aspects of the housing allowance concept, yet is administered to obviate many of the objections to the housing allowance. Under the basic housing allowance, a low-income person is given a specified sum of money and allowed to choose his own dwelling unit. This program strongly resembles the "finders-keepers program" that from the start has been part of the section 23 program.

Under a "finders-keepers program," a low-income family finds its own residence, and requests the local housing authority to rent it from the private owner. Upon rental, the LHA leases it to the enterprising tenant.

The advantage of this program over the housing allowance in its pristine form is the presence of an agency, experienced in housing, that can protect the tenant's family to assure that it is really receiving good housing at a fair price. The LHA can also provide necessary tenant counseling, as many LHA's now do for section 23 tenants.

Accordingly, if there is to be an emphasis on the housing allowance concept, we believe that it should be done within the framework of the section 23 program, thereby utilizing competent and skilled housing agencies already in place.

We believe that these advantages of the section 23 program should be accorded legislative recognition by the following changes in the United States Housing Act of 1937:

1. Because of the success and popularity of the section 23 program, section 5(c) of the act as set forth in S. 2182 should be amended

to require that at least 50 percent of all public housing production funds be used for the section 23 program.

2. That there be a reasonably even balance between the leasing of existing and those constructed for the purpose of being leased to an LHA. Too often in the past, HUD has mandated new units at the expense of a local desire to lease existing units or vise versa. HUD makes these determinations not on the needs of the section 23 program, or of the LHA, but to meet some other goals such as a new unit production target or an increase in the housing allowance experiment.

Accordingly, we favor a provision, such as that contained in last year's House bill, that would require that 40 percent of the units under the program be newly constructed, 40 percent existing and that HUD have discretion as to whether the remaining 20 percent be new or existing. Such a provision would end the wholesale fluctuation from one extreme to the other that we have seen in the program over the past years and yet provide HUD with needed administrative discretion.

3. A subsidiary problem of the new versus existing dichotomy is the issue of how to deal with substantially rehabilitated units. Under present interpretations, substantially rehabilitated units are classified as existing housing. Therefore, they are limited to a 15-year amortization period. On the other hand, it is clear that substantial rehabilitation usually involves costs which require the 20-year amortization period of new construction. Therefore, it is our recommendation that substantial rehabilitation be taken specific note of and that substantial rehabilitation be accorded the 20-year term as opposed to the 15-year term.

4. Section 23(e) of the act now measures the section 23 annual contributions by what HUD would pay on a hypothetical newly constructed unit by an LHA. This "flexible formula" does not take into account that section 23 units pay full taxes and are usually financed at market interest rates. For that reason, we favor the approach embodied in section 8(d) of the act as set forth in S. 2182, allowing HUD to set the contribution in the amount realistically needed to make the project feasible based on both the number of units to be leased and the economic terms of the lease itself. This would give real meaning to the concept of a "flexible formula."

5. We fully believe that any units leased under the section 23 program should be in compliance with local codes. That being the case, we see no justification for HUD's imposition of minimum property standards on top of such codes, assuming the locality follows a nationally recognized building code. Section 8 of S. 2182 should be amended to achieve this result.

6. Section 2(a) of the act allows HUD to guarantee bonds issued by local housing authorities or on their behalf, but make such bonds taxable if so guaranteed.

I disagree with the taxable alternative based upon the following: First, there is no assurance that the subsidy will continue during the life of the outstanding bonds. Witness, for example, the present difficulties of operating subsidies or the present impoundment problems.

Secondly, those issuers choosing the taxable alternative will be forced to compete for money in the existing corporate credit markets and

thus drive interest rates up in the corporate sector, since there are different types of buyers for tax-exempts and taxables.

Thirdly, imposition of a taxable alternative would violate the constitutional basis of tax exemption of State and local bonds.

Fourth, the cost of the added bureaucracy necessary to administer this program will probably offset any alleged savings to the Federal Government.

7. Another aspect of S. 2182 requires comment. I approve of the repeal of Brooks amendment No. 3 by requiring a public housing customer to pay a rent at least equal to 40 percent of the operating costs and utilities. This concept is vital to the continued economic integrity and the projects.

8. In closing, I must admit to the gravest reservation I have concerning S. 2182, although I say this a bit facetiously. That is the section number of the bill. World War II veterans may remember section 8 discharges. I can only hope that the drafters of S. 2182 did not intend a similar discharge to the section 23 program.

In all seriousness, I think there is some value to keeping existing section numbers. People are familiar with the concept of section 23. To change the number to section 8 may create problems particularly with many of the bureaucrats who need to interpret these sections and may think they have a whole new program with which they must deal.

We are most appreciative, Mr. Chairman, of this opportunity to appear before you today, and hope our views will be helpful in your deliberations. Thank you.

The CHAIRMAN. Thank you very much, Mr. Goldberg. That is a very interesting and helpful report, I should say, on section 23 leased housing. I am very glad to have your comments and your recommendations.

Let me ask you this question—you referred there toward the end of your statement to that Brooke amendment No. 3, did you say?

Mr. GOLDBERG. Yes, we advocate the repeal of Brooke amendment No. 3.

The CHAIRMAN. Should be repealed?

Mr. GOLDBERG. Correct.

The CHAIRMAN. I am sure you know what that is. You know of the case in public housing, the series of Brooke amendments which have caused considerable upset with many of the housing authorities. The question has been just what should we do about it.

Now, one of the problems that conventional public housing has faced has been the increase in operating costs. Is that similarly true with leased housing?

Mr. GOLDBERG. I think it is quite similar. To the extent that the private owner has to absorb some of those increased costs, the problem is not as severe. However this is a very definite problem at present because of the lack of the owner's ability to absorb cost increases beyond a point.

One of the things we have done in the nonprofit tax-exempt financing area, to try to compensate for the fact that there is not a builder or developer actually owning the property, is to set up reserve funds funded out of the proceeds of the bond issue, whether they be special

maintenance reserve, or contingency reserves of some sort. So, there is a buffer that we have tried to create.

I believe our counsel may want to elaborate on this very real problem.

Mr. EDSON. Mr. Chairman, if I might elaborate. The problem of operating subsidies is very serious in section 23, because the Office of Management and Budget will now allow the operating subsidy for section 23, unlike any other housing program. Instead, they say, "You have to take it out of your new units." In other words, if you were going to get 100 units of section 23, now you can only get 50, because we are taking the money that you had for new units and putting it into operating subsidy.

It is a serious problem. We just got a plaintive letter from the city of New Haven saying "we lost 125 units because of it." It is a real problem for the 23 program.

The CHAIRMAN. In that context, I believe Senator Brooke has said from time to time that one of the problems with the Brooke amendment has been that the provision was not made for sufficient funds to help do the job that was anticipated there.

Mr. EDSON. That is correct.

The CHAIRMAN. Let me bring up just this point: You know that in the housing bill which we passed here last March, we provided that 30 percent of the new units should be leased housing, did we not?

Mr. GOLDBERG. Yes, sir, I believe that is the case.

Mr. EDSON. That is correct.

Mr. GOLDBERG. I think that such action was a very commendable one. We of the Section 23 Leased Housing Association feel the leasing program really has significant advantages for all sectors of the industry and, most importantly, is one which will aid in solving the housing problems of America's low-income families.

The interest of this committee in requesting testimony from a group such as ourselves, and by the recognition which you gave in last year's bill, and again in this year's S. 2182, are indicative of your concern and awareness of the advantages of section 23.

The CHAIRMAN. By the way, lest I be misunderstood, I did not want to leave the implication that all of the problems of operating costs—they are not due to the Brooke amendment. That is just one of the elements we mentioned.

Thank you, very much, gentlemen. We appreciate your statement.

Mr. GOLDBERG. Thank you, sir.

[The complete statement of the Section 23 Leased Housing Association follows:]

SECTION 23 LEASED HOUSING ASSOCIATION

STATEMENT OF ARTHUR ABBA GOLDBERG, PRESIDENT, SECTION 23 LEASED HOUSING ASSOCIATION BEFORE THE HOUSING SUBCOMMITTEE OF THE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS OF THE UNITED STATES SENATE

July 23, 1973

Mr. Chairman and Members of the Committee:

My name is Arthur Abba Goldberg. I am here today in my capacity as President of the Section 23 Leased Housing Association. In my private capacity I am Vice President, Matthews and Wright, Inc., a New York City investment banker active in tax exempt financing. I am accompanied by Charles L. Edson, Esq. of Frosh, Lane and Edson, P.C., Washington, D. C., General Counsel to the organization.

The Association includes developers, financing institutions and local housing authorities involved in the development and management of leased housing under Section 23 of the United States Housing Act. Our organization, formed in early 1972 with five members from the private sector, now has nearly 50 members covering a broad spectrum of both private and local industry and local housing authorities. In addition to representing the interests of the Section 23 Program before Congress and HUD, the Association publishes a monthly newsletter, conducts seminars, and otherwise serves as an information service about the program. We attribute our remarkable growth -- in not the best of times -- not so much to the merits of our Association but to the strength of the Section 23 Program.

A few statistics chart the significant role that Section 23 plays in housing low income Americans. As of December 31, 1972, a total of 151,000 Section 23 units were under Annual Contributions Contract out of the approximately 1.25 million total public housing units under ACC. Of these, 66,000 are units that have been, or will be, constructed by private owners specifically for the purpose of leasing to an LHA. An additional 27,000 of these units have been rehabilitated and then leased to local authorities and 59,000 are in existing structures. This impressive total -- over 12 1/2% of all units under ACC -- has been reached in the eight years that Section 23 has been part of the United States Housing Act.

The Section 23 Program has been popular across the board. Congress demonstrated its support in its 1970 requirement that at least 30% of all new housing units be under the leasing program. The Administration, at least until January of 1973, has emphasized the program, especially its construction for leasing aspects. The Urban Institute, in its compre-

hensive study of the program, published in the Compendium of Papers submitted to the Joint Economic Committee, Congress of the United States of October 9, 1972, gave the program quite a favorable report.

Many factors contribute to the program's success:

- First, it involves an ideal joint venture between local government and private enterprise. The private owner generally manages the units itself and is always responsible to see that the management is done properly. This private involvement alone often makes for greater community acceptance. In addition, the private owner and the LHA serve as checks on each other to assure that the units are well maintained and that the lease is adhered to. This beneficial watchdog relationship is not present in any other federal housing program.

- Second, units leased to an authority under Section 23 pay full local real estate taxes (unless the local community voluntarily determines to abate same), instead of the far lesser payment in lieu of taxes made on the usual public housing project. Accordingly, many communities welcome a Section 23 project when they would not accept other forms of public housing. Indeed, Section 23 can be deeded a precursor of special revenue sharing -- a concept whose applicability to housing is under serious examination.

- Third, the cost of Section 23 housing is generally less per unit than that under Turnkey or conventional. The Urban Institute's study found this to be the case, although this study dealt mainly with the leasing of existing units. Concerning the leasing of new units, the United States Housing Act limits the amount of HUD contributions to the same amount that it could make on a Turnkey or conventional project. Considering that a Section 23 project generally has to pay local property taxes as opposed to payment in lieu of taxes -- PILOT -- then obviously there is less money available under Section 23 for the other elements of housing cost. Yet Section 23 units are being built. In speaking of housing costs, there has been developed under the Section 23 Program a variation that results in great long-run savings to the federal government -- bond financing. This savings results from the fact that

the federal government only makes 20 instead of 40 annual contributions payments. Under this plan, a non-profit corporation is formed to construct a project and lease the units therein to a local housing authority under Section 23. As the non-profit corporation is forming a quasi public function, it can issue bonds exempt from federal income tax. IRS requires that after the twenty year term of the lease, the non-profit deed the units to the local housing authority or governing body. As a result, the LHA owns the units free and clear after twenty years. Viewed from another perspective, the federal government has to make annual contributions or payments for only twenty years instead of forty under Section 236 or Turnkey, resulting in a significant long run saving. There is much to be said for the shorter amortization period, especially at this time when long range costs are of great concern.

- Fourth, Section 23 provides housing faster than the other public housing methods. Significantly, this is true for newly constructed units as well as in the case of existing units. At least this was the case before HUD began imposing some of the stringencies of the Turnkey Program on Section 23 in various drafts of its proposed Construction for Leasing Handbook.

- Fifth, Section 23 is an extremely flexible program, adaptable to any particular community need. It can be used for family or elderly housing on either a project or scattered site basis. It can be used to rent existing units or new ones constructed for that purpose if there is otherwise a tight rental market. It can be combined with the Farmer's Home Section 515 Program, the HUD 236 Program and with state housing finance agency programs. It works equally well in our center cities or rural areas. HUD has recommended its use for congregate housing projects for the elderly whereby an LHA rents units served by a central dining facility. It has been utilized to rent units in nursing homes, a concept which can be expanded to renting units especially designed for the handicapped, the retarded, or for alcoholic rehabilitation. Under Turnkey IV or Section 23(g), leased housing can be combined with homeownership. The program has often been utilized on Indian reservations. Of extreme relevance, the Section 23

concept allows for both local decision making and imagination, a concept that should be at the heart of any new housing policy.

- Sixth, Section 23 is not subject to the referendum requirement imposed on other public housing programs in such states as California or Mississippi. Thus, it is not surprising that as of June, 1972, 26,000 units of the 100,000 Section 23 units under management were in California.

Finally, Section 23 embodies the beneficial aspects of the housing allowance, concept yet is administered to obviate many objections to the housing allowance. Under the basic housing allowance a low income person is given a specified sum of money and allowed to choose his own dwelling unit. This program strongly resembles the "finders - keepers program" that from the start has been part of the Section 23 Program. Under a "finders - keepers" program, a low income family finds his own residence, and requests the local housing authority to rent it from the private owner. Upon rental, the LHA leases it to the enterprising tenant. The advantage of this program over the housing allowance in its pristine form is the presence of an agency, experienced in housing, that can protect the tenants' family to assure that it is really receiving good housing at a fair price. The LHA can also provide necessary tenant counselling, as many LHAs now do for Section 23 tenants. Accordingly, if there is to be an emphasis on the housing allowance concept, we believe that it should be done within the framework of the Section 23 Program thereby utilizing competent and skilled housing agencies already in place.

We believe that these advantages of the Section 23 Program should be accorded legislative recognition by the following changes in the United States Housing Act of 1937:

1. Because of the success and popularity of the Section 23 Program, Section 5(c) of the Act as set forth in S2182 should be amended to require that at least 50% of all public housing production funds be used for the Section 23 Program.

2. That there be a reasonably even balance between the leasing of existing and those constructed for the purpose of being leased to an LHA. Too often in the past, HUD has mandated new units at the expense of a local desire to lease existing units or visa versa. HUD makes these determinations not on the needs of the Section 23 Program

or of the LHA but to meet some other goals such as a new unit production target or an increase in the housing allowance experiment. Accordingly, we favor a provision, such as that contained in last year's House bill, that would require that 40% of the units under the program be newly constructed, 40% existing (including substantially rehabilitated units) and that HUD have discretion as to whether the remaining 20% be new or existing. Such a provision would end the wholesale flucuation from one extreme to the other that we have seen in the program over the past years and yet provide HUD with needed administrative discretion.

3. Section 23(e) of the Act now measures the Section 23 Annual Contributions by what HUD would pay on a hypothetical newly constructed unit by an LHA. This "flexible formula" does not take into account that Section 23 units pay full taxes and are usually financed at market interest rates. For that reason, we favor the approach embodied in Section 8(d) of the Act as set forth in S2182 allowing HUD to set the contribution in the amount realistically needed to make the project feasible based on the number of units under lease and the lease terms.

4. We fully believe that any unit leased under Section 23 should be in compliance with local codes. That being the case, we see no justification for HUD's imposition of Minimum Property Standards on top of such codes, assuming the locality follows a nationally recognized building code. Section 8 of S2182 should be amended to achieve this result.

We are most appreciative, Mr. Chairman, of this opportunity to appear before you today and hope our views will be helpful in your deliberations.

The CHAIRMAN. Our last witness is M. J. Weeks, president of the National Association of Building Manufacturers.

STATEMENT OF M. J. WEEKS, PRESIDENT, NATIONAL ASSOCIATION OF BUILDING MANUFACTURERS; ACCOMPANIED BY JAMES J. JUDGE, EXECUTIVE VICE PRESIDENT; AND CHARLES L. EDSON, GENERAL COUNSEL

Mr. WEEKS. Thank you, sir.

The CHAIRMAN. We have your statement and we will put that in the record and you proceed as you wish.

Mr. WEEKS. I am M. J. Weeks, and I am appearing today in my capacity as president of the National Association of Building Manufacturers. I am also president of Lexington Homes, Inc., of Hillsborough, N.C.

I am accompanied by James J. Judge, on my right, executive vice president of N.A.B.M. and Charles L. Edson of Frosh, Lane, & Edson, P.C., our general counsel on my left.

The National Association of Building Manufacturers, founded in 1942, is a trade association of over 300 companies which collectively produce over 50 percent of the factory manufactured or industrialized housing produced in this country.

In addition, we number among our members the principal suppliers to the industrial housing industry. Our organization has long been concerned with the Nation's total housing picture with specific reference to those constraints that impede the use of innovative industrialized techniques. This is a problem of increasing concern in light of the rapidly growing role played by factory-produced housing in meeting the Nation's housing needs.

There are many, many subjects involved in housing and our organization is interested in all of them. Mr. Chairman, we have and will continue to cooperate with other groups seeking solutions to housing problems. As a matter of record, our members belong to these different organizations that have appeared here today. But our purpose here today is to present our thoughts on industrialized housing specifically, and where it fits in the total housing picture. I would like to begin with a few general observations on the Federal programs reflecting the results of a recent survey of our membership.

Of greatest significance, although most of our members responding stated that their federally subsidized housing work has been less profitable to them than their other activities, still a vast majority indicated a desire to continue participation in the Federal programs. Furthermore, a significant majority of respondents believe that Federal assistance in housing low-income families should be increased or at least remain at present levels.

Many reasons are given for the low level of profitability; excessive engineering requirements, too much redtape and poor cash flow lead the list. Accordingly, if the present sections 235 and 236 programs are to be retained, even on a transition basis, we strongly recommend the following changes:

1. Simplification of the now endless, and often meaningless, processing procedures. In this regard, many of our members cite the Farm-

ers Home Administration as a model to be followed concerning processing.

2. Realistic mortgage limits for the area involved.

3. Greater flexibility to income limits to avoid projects filled only with low-income people.

Assuming that totally new programs will emerge from the administration's current study and the legislative process, N.A.B.M. would like to see more emphasis on State and local administration. Section 2(a) of S. 2182, providing for Federal guarantee of the obligations of State and local housing and development agencies, is a step in this direction. Housing revenue sharing, as embodied in section 9 of S. 2182, might prove a desirable alternative in this regard.

I would like to further comment that we feel it is extremely important that States, cities and local agencies be required to have some program. There is always a fear that they might see fit not to participate in such a program and also there is great concern among some of our members that they would have to be dealing with too many types of programs since many of our manufacturers deliver into several States. They would have to deal with many different agencies, each with perhaps a different approach perhaps or a different type of program.

I would like now to go to the necessary changes in Federal law; the first, and most important, would facilitate the utilization of advanced housing technology in conventionally financed as well as HUD-assisted housing.

The most pressing problem facing the industrialized housing manufacturer is the requirement that he must comply with numerous and often conflicting, local building codes. If the automobile manufacturer had to be concerned with a local car design ordinance in every community in which he shipped cars, an auto would cost at least two or three times as much as it does today.

HUD's "Operation Breakthrough" has provided a partial remedy to this situation; namely, statewide industrialized housing laws which have been adopted in about 27 States. Under these laws, if an industrialized house passes a State inspection, it no longer is subject to local building codes. Some statutes contain reciprocity provisions whereby the receiving State can accept the certification of the inspecting agency in the State of origin.

We are, however, experiencing some very practical problems in the administration of these laws. The most serious problem is that few States with such laws have worked out reciprocal arrangements with each other whereby housing units approved in the State of manufacture can be shipped to other States without having to repeat the approval process in the State of final destination. Manufacturers that market in several States, as most do, are finding that every new model that they produce, and every change in the design or use of materials of any existing model, has to be processed separately in every State in which these units are to be sold. This is exceedingly costly in time and effort and a deterrent to the introduction of newer technologies that would save construction costs.

We believe that some form of reciprocity in building regulations among the States is essential to the future of the manufactured housing industry. Accordingly, we propose legislation which would pro-

vide under authority of the commerce clause that, as between States where reciprocity arrangements do not exist, a housing unit which is manufactured in a State with an industrialized housing law, or a statewide building code for all housing, and which is approved by that State, must be accepted by every other State in the United States, notwithstanding State or local codes to the contrary. To guard against too lenient standards, this preemption would exist only if the State of manufacture followed any of the model codes for the structural, mechanical, electrical, and plumbing elements of the housing unit, or their substantial equivalents, which might be any code acceptable to HUD for workable program purposes or by the National Institute of Building Sciences we will discuss a little later.

This legislation would service as a prod to States with industrialized housing laws to develop reciprocity arrangements, and would spur States without such legislation to promptly enact same, since local codes would be ineffective against out-of-State units in any event.

Now, concerning units insured or assisted under a HUD–FHA program, we recommend the following specific changes:

First, HUD–FHA should be able to insure the cost of building components even if they have not been delivered to the building site if they have been assembled and specifically identified for incorporation into the mortgaged property.

Such a provision supported by HUD was contained in both the House and Senate versions of the aborted Housing and Urban Development Act of 1972, and we are pleased at its inclusion in section 1(*l*) of S. 2182. In our recent survey, many members participating in the Federal programs complained about the poor cash flow in the Federal programs which could be alleviated by such a provision.

Even though it is included in the proposed new Senate bill, I would like to illustrate, Mr. Chairman, what this means.

My company, at the present time, is involved in a 500-unit housing project. It was to commence in January on a schedule that would have it completed by the end of 1973. Many circumstances caused it to not get started on time, however, our company, because we had the contract, had to purchase an inventory that exceeded one-half million dollars.

Now, if we had been able to have insured advances we could have kept a normal production schedule even though we would have had to store it on our own grounds. We could have identified the materials for the project and we could have kept a steady flow of cash, a steady production schedule even with the delays that the contractor was experiencing.

So this becomes a very, very important item to people who are contracting for projects because of the large amount of cash involved. I might also say that I think it should apply to single family as well as multifamily.

Second, cost certification is a problem that plagues the industrialized housing producer who also serves as his own developer. It is virtually impossible for the factory producer to cost certify the items that go into a particular job that is run with many others off the assembly line. Cost certification requirements should be amended to provide that when there is an identity of interest between an industrialized housing producer and the developer, an amount representing the market value,

catalog value if it is available, of such factory-manufactured components shall be satisfactory for the purpose of cost certification.

Again, such a provision would have been adopted in last year's bill and we are gratified that it is again included in this year's bill. Adoption of such a provision would decrease the redtape that has been a real cause of our members' complaint with the Federal programs.

Again I would like to try to illustrate this particular point. I have been involved in the kind of programs where we have had an identity of interest. I have known of other members of our association who have had this same problem. You are building a project along with all of the other projects that you may have sold to other people simultaneously. It is very difficult to break down and cost certify each item that goes into a factory-produced component job.

If it were isolated, all done at one time, it would not be so difficult. But when it is produced on an assembly line with other projects it is very difficult to cost certify. I think a good analogy would be that of a land developer and a builder. The developer buys a tract of land, improves it and sells the improved lots. He is expected to make a fair profit on the market value of the lots.

A builder will buy the lots, build houses on them and he is expected to make a fair profit on the market value of the house. There is no problem at all if a person decides to be the builder and the developer. He can make both profits, if he does both jobs. So we question why it should be different with a manufacturer who has invested his money in plant. Why should he be expected to manufacture the components that go into a project on a cost basis?

We feel it should be on a market value basis.

Next, under title X of the National Housing Act, HUD–FHA can insure loans for related structure improvements, such as water lines, roads, streets, curbs, and the like, for large land developments.

However, under present law HUD cannot insure funds utilized to construct foundation slabs on which is placed a factory produced house, or any house for that matter, but we are referring to a factory-produced house in this case.

Title X, or section 505 of S. 2182, should be amended to permit such insurance so that a developer, using industrialized products, can effectively utilize title X financing. This change would also help meet the cash flow problems of many of our members who also act as their own developers.

In addition, we support the adoption of a National Institute of Building Sciences. Both the House and Senate versions of the Housing and Urban Development Act of 1972, would have created a National Institute of Building Sciences as a nongovernmental corporation which would develop and publish standards affecting building materials and local building codes, test new building products and techniques, and coordinate, to the extent practicable, all present activities in this area.

We support NIBS because the aforementioned activities are essential if a technologically based industry such as ours is to have meaningful growth. As originally proposed by Senator Javits and Representative Moorhead, the NIBS standards would be applicable to all federally assisted housing and Federal buildings. N.A.B.M. favored this provision provided that it would be the only Federal standard

that would apply to federally assisted housing, thereby replacing other such standards now in existence as the HUD–FHA minimum property standards, "Operation Breakthrough" standard and the like.

Our members, in answering our survey, stressed the need for reasonable and workable construction standards. We do not see the need for more Federal standards; however, there is a crying need for one Federal standard.

Mr. Chairman, I realize I have only touched briefly on some very complex subjects. We will gladly prepare a detailed analysis for review by the committee, if you so choose.

On behalf of the National Association of Building Manufacturers, I wish to thank you for this opportunity to share our thoughts with you, and thank you particularly for the interests that you, Mr. Chairman, have shown in the industrialized housing community in the past year. Thank you very much.

The CHAIRMAN. Thank you.

Can you give us an idea of how many units your association has started in 1973 or will start?

Mr. WEEKS. Our association or the industry as a whole? The industrialized housing industry?

The CHAIRMAN. Well, whichever you have.

Mr. WEEKS. I think it is generally conceded from the records that we have available, Mr. Chairman, that some form of industrialization will be involved in over 75 percent of all housing in 1973. We say that our industry—our membership represents about 50 percent of the industrialized housing production.

The CHAIRMAN. You made reference to title X section 1(*l*). You realize, I am sure, that S. 2182 leaves out some of the language that was in the bill last year. I think perhaps it may take care of the situation that you referred to. It omits certain words. Well, I will read them.

Where title to such components was passed to the purchaser as of last year's bill.

That is omitted this year.

Mr. WEEKS. We favor the bill as worded this year.

The CHAIRMAN. I thought you would.

Mr. WEEKS. Yes, sir.

The CHAIRMAN. Now, I believe that is all the questions I want to ask you. I want to say that I certainly appreciate your giving us this informative statement that you did. It certainly will give us some thoughts when we get to mark up the bill.

Mr. WEEKS. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, gentlemen.

The committee will now stand in recess until 10 tomorrow.

[Whereupon the hearing was adjourned at 12:10 p.m., to reconvene at 10 a.m., Tuesday, July 24, 1973.]

1973 HOUSING AND URBAN DEVELOPMENT LEGISLATION

TUESDAY, JULY 24, 1973

U.S. SENATE,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:08 a.m., pursuant to call, in room 5302, Dirksen Senate Office Building, Senator John Sparkman, chairman of the subcommittee, presiding.

Present: Senators Sparkman, Proxmire, Brock, and Taft.

The CHAIRMAN. Let the committee come to order, please.

Our first witness this morning is the Honorable Louis Frey, U.S. Congressman from Florida. Glad to have you, Congressman. We shall be very glad to hear from you.

STATEMENT OF LOUIS FREY, JR., REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. FREY. Thank you very much.

Mr. Chairman, I'd like to ask permission to insert my remarks in the record and then speak extemporaneously and answer any questions (see p. 848).

The CHAIRMAN. That will be done. We always print the prepared statement in the record in full and then leave it up to the witness to handle it as he sees fit, so you may proceed.

Mr. FREY. Mr. Chairman, several years ago we had a case from the district—I represent the middle district of Florida—and a case came up involving mobile homes and I asked my legislative assistant to look into the problem and to brief me on it.

Much to my surprise, I found that there was, frankly, no Federal legislation regarding the safety of mobile homes. Florida itself had adopted a code, as a number of other States had, and, of course, Florida to a certain extent even enforced the code, which is different, I might say, than some other States. However, in my State there are over 700,000 people living in mobile homes. Across the Nation there are 7 million people living in mobile homes.

After further investigation I concluded that we needed a National Mobile Home Safety Act, an act that would give us uniform standards with State enforcement and an act at the same time that would protect the legitimate manufacturer. We need mobile homes. There should be no question whatsoever on that. Ninety-five percent of the homes, single-family units under $15,000 in this country last year were mobile homes.

They have an important place in our society. They are suitable for the young and for the senior citizen. So the purpose of this bill is not to hurt or impair mobile home manufacturers but to try and produce a mobile home that is safer, a mobile home that people throughout the Nation can have confidence in.

Now, mobile home production this year will be about 600,000 units as compared to 200,000 in the mid-sixties. Mobile homes were 20 percent of the new housing starts in 1970 and 25 percent in 1971 and 1972. In other words, they are becoming more and more an important part of housing as the years go by and I see this trend continuing into the future.

As you know, many of the laws in the States regarding mobile homes are in a state of disarray. I just finished a "Law Review" article which will be published in the "Washington" and Illinois "Law Review," I guess in September or October comparing the laws regarding mobile homes in the States. Just to summarize for the committee, I could say there are probably as many laws regarding mobile homes as there are States.

One of the basic problems that we have in State enforcement is the lack of uniformity. For instance, Pennsylvania, if my memory serves me right, just recently passed a law saying their law on mobile homes will not apply to any unit that is exported from Pennsylvania to any other State. In the State of Florida, for our inspections we had three inspectors until recently and now we have six inspectors for 700,000 people.

Statistics on mobile homes and the hazards of mobile homes really aren't as good as they should be. We have tried to get all the information we can, but I am not satisfied with it and I think that we certainly need to obtain more statistics, but what we have shows the mortality rate is greater.

For those of us who live in the South or Southeast, when the hurricanes come through there is no question what happens as far as the mobile home and mobile home parks. We need a national regulation requiring tiedowns for mobile homes.

First, however, is the greatest hazard. I went down to a park in Miami to look through a mobile home park. One park had to build a special entrance for a fire truck to get in quickly enough and answer the fire and even then it wasn't enough. I had a fireman, from Florida, tell me that when a fire occurs in a mobile home, they don't bother to take the fire truck out. In about 7 minutes it is gone. They simply can't get there in time.

In essence, I guess I am speaking basically for the 7 million people who do live in mobile homes and feel very strongly there should be legislation. I drafted the initial bill on this, which Senator Brock put in the Senate. My bill has been expanded in the last year and is in front of the House Interstate and Foreign Commerce Committee. I have expanded the original bill to also include recreational vehicles.

Among those who have endorsed the bill are the Rural Electric Cooperative Association, National Civil Defense Association, National Council of Better Business Bureaus, National Association of Independent Insurance Associations, and Mobile Home Owners Associations throughout Florida.

The basic controversy, I think, regarding the bill is, whether or not there should be Federal safety regulations? I think this is a legitimate

question. Many people in the industry feel that the ANSI code, section A119, is the answer to the problem.

To begin with it isn't adopted everywhere. Secondly, even where adopted, it isn't enforced, and thirdly, there is a question of reciprocity in law. I think if we had uniform standards it would be better for everyone.

Secondly, there has been a question of Federal enforcement raised. I think this is a spurious argument as the bill relies primarily on State enforcement. You wouldn't have to create a vast bureaucracy to enforce this but use the enforcement agencies that exist and in essence, encourage the States to enforce it.

There has always been a question raised about the cost. Well, in our State it costs the same to insure a $6,000 mobile home as about a $40,000 house, and I think this is true in many places throughout the country. I think the small additional cost you might have in manufacturing would be offset by the savings in insurance costs and certainly by the savings, I think, in terms of human life and injuries that might result.

I think it is a good investment, I think it is a commonsense investment. I think it is one that is badly needed and as I said when I started, I am rather surprised something hasn't been done in the past, and with that I'd be glad to answer any questions of the committee.

The CHAIRMAN. Well, thank you, Congressman. Do I understand that you look with favor upon the standard for mobile homes that has been published?

Mr. FREY. When you say, "Look with favor on it," let's just say it's a good start. I think it is at least a start. It is an industry publication——

The CHAIRMAN. This is purely voluntary, though?

Mr. FREY. That is correct, but I think they have done a good job in it and improved it along the way. The point I tried to make, there are further improvements that are needed; that there are States that have not adopted it and; third, even where adopted there are States that basically don't adopt it for shipping out of State or don't enforce it within the State.

The CHAIRMAN. By the way, you refer to the Brock bill. Senator Brock is here. I want to call your attention to the fact that four of us introduced that bill, four members of this committee, by the way, so—and I think, I believe the committee as a whole would look with favor upon something being done.

I share your feelings that we need to do something. I think we must do something if we are to continue to use mobile homes and I agree with you also that as I understand what you say, that mobile homes are virtually a necessity in this country. How many people did you say live in mobile homes?

Mr. FREY. Over 7 million in the United States and 700,000 in Florida, Mr. Chairman.

The CHAIRMAN. Is that in addition to the United States?

Mr. FREY. Sometimes we think so.

The CHAIRMAN. Seven million people. You know, in the first piece of legislation we wrote in recognition of mobile homes, we didn't call them mobile homes, we called them trailers.

Mr. FREY. Some of the confusion within the States, Mr. Chairman, in terms of taxation and many things is based on the very fact that

they are still referred to as trailers and, of course, to call the double-wide mobile homes is fairly hilarious. They are tough enough to move one way but to return them, for instance, to fix them would be another story.

The CHAIRMAN. The first legislation was to authorize FHA to insure trailer parks. That's all we needed, and it wasn't until 4 or 5 years ago that we authorized FHA——

Senator BROCK. 1968, I think.

The CHAIRMAN. In 1968, we authorized FHA to insure trailer homes but provided that they should set standards.

Now, I have read of many instances of tragedy in the mobile homes that I think could have been avoided by having proper standards. I remember going down to Fort Rucker [sic] a year or 2 ago. A tornado had come through there and there was a great colony of mobile homes. The most utter destruction I have ever seen, and I was impressed then with the idea that we needed to do something about it. Just to see one of these mobile homes sitting on a stone or a cement block or something like that with no anchor whatsoever seems to me is virtually an invitation to destruction, and I was very glad to join with Senator Brock and others of this committee in introducing this legislation.

Senator Brock, since it is your bill I will turn it over to you first.

Senator BROCK. If I may in advance make my apologies, I have got to leave for a very short time at 10:30 for hearings before the Appropriations Committee.

The CHAIRMAN. Well, you may be interested to know I have four 10 o'clock committee meetings.

Senator BROCK. That is the problem these days.

I'd like to make a very short statement and express my gratitude to the Senator from Alabama for his foresight in calling for these hearings.

Mobile homes have risen to a position of dominance—and I don't mean importance, I mean dominance—in the low-cost housing field. In fact, they are virtually the only source of housing now available to those who cannot afford a typical new site-built home.

Today's mobile home, far from the trailer which you were just referring to, Congressman, of long ago, provides comforts and luxuries similar to those afforded by costlier site-built housing and in recent years have seen marked improvement, too, in the surrounding of most mobile homes.

The mobile homes appeal particularly to young married couples just setting up housekeeping, as well as to older couples whose children have grown up and no longer live with them. They are popular also with middle-aged couples where the wife goes to work.

Unfortunately, mobile home dwellers are particularly subject to the ravages of nature. Mobile home overturns due to high winds account for needless death and injuries each year. The National Weather Services Storms Center in Kansas City said that about 60 persons have died in windstorms so far this year with about 24 of them in mobile homes.

It has been estimated that 90 percent of all mobile home wind damage is preventable with proper anchoring, but fewer than 1 percent of the mobile homes have been properly tied down. Most States do not require that mobile homes be tied down or anchored to their sites.

After reviewing current State laws governing mobile home construction, it became clear to me that Federal legislation was necessary to protect mobile home owners. Accordingly, in the last session of Congress, I introduced the National Mobile Homes Safety Standards Act to provide for the establishment of safety standards for mobile homes in interstate commerce. When I reintroduced the bill this year, as the Senator from Alabama pointed out, it was cosponsored by Senators Sparkman, Hathaway, Bennett, Tower, Muskie, Beall, Hollings, Taft, Goldwater, Gurney, Moss, and Humphrey. This is a pretty good ideological as well as political spread.

May I add, Mr. Chairman, that as much as any other member of either body, the Congressman now testifying, Congressman Frey, has led the effort to do something about this problem. He and I originally discussed a draft in the subject area he had prepared with his staff.

Congressman Frey is enormously concerned. Coming from Florida he has reason to be concerned with 10 percent of the Nation's people who live in mobile homes situated in that particular State. I don't feel anybody can fail to be concerned about these individuals. And I think the legislation we propose is of benefit to all parties because we deal with titling, we deal with State standards, we deal with the need for adequate safety precautions in the construction of these homes, we deal with the adequate ingress and egress in the instance of fire, we deal with the need for adequate electrical wiring and it's not adequate in the case of some mobile home manufacturers.

What we are trying to say is most of these manufacturers do a fine job. They are really good and they are trying to do the right thing, but there are a few who do not and in that case we have a problem that must be dealt with for the protection of the consumer. I would say that if we can afford that protection we not only benefit the homeowner but the good manufacturer, and the good State program as well. We can benefit the homeowner not only in the terms of safety but insurance costs. Insurance costs here are almost 10 times what they are with the private homes of normal construction, so I want to express my very deep appreciation to the Congressman from Florida, Mr. Frey, and to the chairman of this committee for the leadership that both have provided in resolving a problem that is of considerable magnitude to a great many people in this country and I compliment you for your testimony and for your efforts in this field, Mr. Frey.

Mr. FREY. Thank you.

The CHAIRMAN. Thank you, Senator Brock. Senator Proxmire?

Senator PROXMIRE. Congressman, how does your bill and the Brock bill differ from the standards that are proposed by the industry itself?

Mr. FREY. The standards that are proposed by the industry are, of course, set forth in that publication but what we would provide for, in our bill, is to set up a council which would in itself set the standards. The council would be set up of people from the mobile home industry, from the insurance industry, from the consumers, from people concerned with mobile homes itself who would develop and promulgate standards.

We don't set forth specific standards in the bill, Senator. We authorize the establishment of particular standards that we believe are needed.

Senator PROXMIRE. Most crucial, I would think, to your bill would be the makeup of the group that would confer with the Housing and Urban Development Agency; is that right?

Mr. FREY. Yes.

Senator PROXMIRE. Does that indicate the people who would be needed on it? I see in your statement, you say:

> A majority of each council shall be representatives of the general public, including representatives of State and local governments, and the remainder shall include representatives of mobile home or recreational vehicle manufacturers, dealers, insurers, and nationally recognized standards-producing organizations.

I don't see anywhere in that the mobile-home owners group.

Mr. FREY. Maybe that is an omission. I feel very strongly about that and that's why we put:

> A majority of each council shall be representatives of the general public——

Senator PROXMIRE. But then you modify the "general public" by saying, including, No. 1:

> representatives of State and local governments, and the remainder shall include——

Mr. FREY. "Shall be included" but not—yes, sir. It should be better stated "including but not limited to."

Senator PROXMIRE. The reason I raise that point is that I have here—the Nader group are often right. Sometimes, like all of us, they make mistakes. They say this in a recent release:

> Mobile home standards are weak and there is little hope for self-correction by the industry. . . . The group recommended that the Commission begin test burnings of mobile homes to develop design. . . . They call for basic changes in the structure and material of the mobile homes.

Now, you have a council that would advise on this matter that is dominated by vehicle manufacturers, the dealers, and others and I just wonder if you would get the kind of, No. 1, vigorous concern that you should get for the safety of the people who own the mobile home, and No. 2, whether you would get any concern for the quality of the home besides simply safety.

Mr. FREY. Well, two things, Senator. To begin with, the bill was drafted so that hopefully that problem would be taken care of by requiring a majority to be from the public and I would be all for strengthening it if there is any question about the intent of it.

Second, in the bill we authorize research, testing, development, and training to develop new technology.

For instance, I am very familiar with some of the spinoffs of the space program in terms of fire resistant items. This is the type of thing that, in my mind, I hope that the research and development and technology would be able to come up with and include in their standards.

However, one problem: Today we don't have really anything done in this or significant amount of information either, in statistics, either in research and technology, and we are really starting from a pretty low plane and that is why we set up an advisory council and also called for the separate research and testing to give impetus to it.

Senator PROXMIRE. One final question: You said that 10 percent of all the mobile homes are in Florida.

Mr. FREY. Yes, 10 percent.

Senator PROXMIRE. Why doesn't Florida—Florida as a State—provide protection for mobile home owners——

Mr. FREY. Well, they have moved toward tiedowns to a certain extent. That has been rather recent. As a matter of fact, since we put the bill in there has been amazing motion in Florida about getting some things done.

Senator PROXMIRE. You say that they have got three inspectors for——

Mr. FREY. They have increased it to six.

Senator PROXMIRE. That is pretty pitiful. Out of 700,000 mobile homes, and there are 6 guys out inspecting 700,000 mobile homes. You can't even get a sample.

Senator BROCK. He said 700,000 people, not mobile homes.

Mr. FREY. I am on your side.

Senator PROXMIRE. 700,000 people.

Mr. FREY. I think it is a tremendous problem.

Senator PROXMIRE. I want to commend you and Senator Brock on your initiative on this and it is great that you gentlemen have taken an interest in this.

By and large mobile home owners, I think, are forgotten partly because they are just—unfortunately, there is a prejudice against them. They tend to be transients. I think maybe they lose a lot because we think of them too often as people who don't have roots, and therefore, don't vote and don't have the political power they would have, but I think this is all changing a lot.

Mobile homes become a permanent residence for many people and a perfectly, perhaps desirable, environment in many cases.

Mr. FREY. Senator, that recent——

Senator PROXMIRE. But I am glad that both you gentlemen have taken this interest and I think it is a great contribution you are making to safety and I would hope that we can enact something that will be helpful.

Senator BROCK. I would like to respond, too, but let me point out these people are no longer by any definition transients. The average tenure on a mobile home space in a mobile home park is close to 5 years now and going up.

Senator PROXMIRE. I said they are viewed as transients. You are absolutely right that they are not; they are not. It is a permanent way of life for many people.

Senator BROCK. These are very stable communities and in many cases they are a hell of a lot better than so-called residentials.

Senator PROXMIRE. Then we agree it is a wrong idea.

Senator BROCK. Very much so.

Mr. FREY. In many cases, the occupants are the very, very young, or in our State 77 percent are over 65. And the average income of a mobile-home owner in Florida is about $5,200 a year and they don't have anyone speaking for them.

Senator PROXMIRE. One other question. The 1972 bill used a different definition of a mobile home and the 1973 is different. I wondered about the change.

In the first case, "without a permanent foundation" was considered a mobile home and now "with or without a permanent foundation." It is an indication of the transients——

Mr. FREY. The definition we changed between 1972 and 1973 in the bill was basically based on a review of the State laws and trying to tie it into the definition of mobile homes under the majority of States. We talk about how we got into doing that and the research in the Law Review article and that is why the change was made.

Senator PROXMIRE. Thank you, Mr. Chairman.

The CHAIRMAN. Any further questions?

Senator BROCK. No; one other, if I may.

Can you go back to one point that was touched on briefly but I don't think you really got into it. Do you really think the problems of State law can be remedied by national legislation, I have my own view and I would like yours on the subject.

Mr. FREY. You know, I basically start with State and not with Federal legislation. I only end up personally going for Federal legislation if I can find no other way to do it or no other way that makes sense to do it, Senator.

In this case, after reviewing all the State laws and problems of the different codes that are adopted; second, States that don't adopt a code; third, States that don't apply a code to any mobile home manufactured within their State to be shipped out; and fourth, to the overall problem as the Senator was discussing, of enforcement, where it is pretty ludicrous in many cases, I see no other solution to the problem. And because of that I am driven, I guess, to the need for national standards and uniform standards.

Senator BROCK. I think one of the reasons that led me to believe that there was only one answer, and that was at this level was the fact that whereas a home is built by a contractor and sold by a salesman or real estate office, funded by a finance company in a particular locale, mobile homes are manufactured on a national basis in contrast to any other housing in this country. I think, frankly, if we had adequate national standards it would insure to the benefit of the customers and the builders because I think you would get more quality. The standardization will result in more efficiency in the production process for when you buy a mobile home in Chattanooga and then move to Orlando, you are moving from one entirely political jurisdiction to another and you simply have got to have confidence that you are protected both before and after that move. There is no such assurance at the present time and that is why I think that we have almost no alternative other than to go the route of national Federal minimum standards.

Senator PROXMIRE. Will the Senator yield for one very significant qualification?

As far as I am concerned, I agree wholeheartedly except for preemption on the part of the Federal Government moving into a stronger, more comprehensive State law. To knock out the stronger, more comprehensive protections in the State law seems to me a mistake. In other words, I think that the Federal standards should be the minimum and if a State wants to provide stronger provisions, as I understand Wisconsin has passed a law in its State senate which might go further than the bill you two gentlemen are proposing, I don't think that the law should be superseded; preempted; knocked out; if they think we need more comprehensive protection.

The CHAIRMAN. May I say I was planning to ask the Congressman that very question. If, for instance, a State has a stronger law than a Federal law, do you not believe that the State law should be allowed to prevail?

Mr. FREY. I have done a lot of thinking about that, Mr. Chairman, and the problem, of course, to begin with is a practical matter. Wisconsin may be in the process of doing it but if it does it will be the one State that right now would have a stronger law than the one we would adopt.

Second, however, I think one of the things we are trying for is obviously good, tough State standards but we are also trying for uniformity. It seems to me in this type of legislation there has got to be a little bit of give and a little bit of take.

I feel we can have strong uniform standards. I think in all fairness we should have a uniform type of standard that the manufacturer can manufacture to. If he has to manufacture to 50 different standards, I think this legislation is going to fall apart and you are going to end up right back in the mess you now have.

I would hope that no State would have tougher standards than we end up with, and as I said, as a practical matter, I think there is only about one State where we face that problem.

Senator PROXMIRE. It is easy for you to say. Florida has the balmy, wonderful climate.

Mr. FREY. Is this on tape?

Senator PROXMIRE. Unless you like the northern climate like I do, which means Wisconsin is best, but my point is what may be perfectly proper and adequate in Florida may not be for Wisconsin, Minnesota, Maine, the other Northern States.

You should recognize regional differences. We often have this problem here with other legislation, and I think the standard approach has been that the Federal law preempts where you have a weaker State law, but leaves it free to the State to provide more stringent provisions if they think in their judgment it is necessary for their particular State.

Mr. FREY. If that was the case, I would even fall back to an area approach certainly where you might group the States which have a certain type of climatic problem and that into the Southeast, Northeast, Midwest, something like that. Maybe that is a compromise solution to the problem.

Senator PROXMIRE. Like the regional housing codes we have.

Mr. FREY. Yes, sir, something like that.

Senator BROCK. That is one possibility, or, frankly, one that appeals to me just about as much is to toughen the Federal laws so it would be very difficult to write any State law that would be any safer or more protective to the individual and the family than what we write because ultimately that is what we are trying to do, is achieve basic protection for the homeowner and his children.

Mr. FREY. One of the problems, too, is what if you export from Wisconsin to Florida?

Senator PROXMIRE. If you what?

Mr. FREY. Export from Wisconsin to Florida. That problem is not a practical one, I guess, because most aren't sold more than 500 miles from the source where they are manufactured.

The CHAIRMAN. Well, thank you very much, Congressman. We appreciate your presentation. You gave us a lot to think about.

Mr. FREY. I certainly thank you. I commend the committee and the chairman for working on this problem and taking the leadership, and, of course, the distinguished Senator from Tennessee, Senator Brock.

He has been tremendous in this area and done so much for the people of the Nation.

[The complete statement of Congressman Frey follows:]

STATEMENT BY LOUIS FREY, JR., REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

MOBILE HOMES: A HOUSING PHENOMENON THAT MUST BE MADE SAFER

Mr. Chairman, I appreciate having the opportunity to appear before you today to discuss the need for national safety standards for mobile homes. Several years ago I received a number of complaints from my district concerning injury and property damage incurred by occupants of mobile homes. Florida, as you may know, has the largest mobile home population in the nation. Upon investigation of these complaints, I was shocked to find a complete lack of safety construction standards for mobile homes.

After considerable research I then drafted the first bill on this matter in the Congress—the National Mobile Home Safety Act—which was introduced in the 92nd and 93rd Congresses with more than 50 cosponsors. The original bill was virtually identical to that introduced by my colleague and good friend, Senator Brock. Although my current bill, H.R. 5224, is substantially different from Senator Brock's bill, we both agree that there is an imperative need for federal mobile home standards. I commend the Senator from Tennessee for his deep interest in this problem and the leadership he has demonstrated in resolving it.

During the past five years the huge increase in mobile home production has plugged an important gap in conventional housing production. As a result, the mobile home has emerged as an important, albeit unique segment of American housing.

Mobile home production this year will be about 600,000 units as compared to 200,000 in the mid-sixties. More than 7 million people now live in mobile homes! And, most important, half of the one-family houses built in the United States today are mobile homes and 95% of the houses sold under $15,000 are mobile homes.

And the demand continues to grow. Mobiles were 20% of the new housing starts (including mobile homes) in 1970 and 25% in 1971 and 1972.

The phenomenal increase in production and the rapid changes in the configuration of mobile homes—the emergence in the 14 wides and double-wides—have created serious safety hazards. The huge demand has made the market so competitive that insufficient resources and technology have been devoted to sound construction and safety features.

MOBILE HOME SAFETY HAZARDS

The major safety problem is the hazard of fire. The State of Oregon, one of the few states to keep mobile homes statistics, estimates that the average loss to a mobile home as compared to its value is 3.8 times greater as for a conventional home and the mortality rate in mobile homes fire is 3.29 times greater. An analysis made by Foremost Insurance Company of 5,543 mobile home fires in 1971 estimated that the damage due to such fires amounted to $6,780,972.34.

Foremost Insurance Company found 19% or all mobile home fires last year were due to faulty electrical wiring. The primary cause was the extensive use made of aluminum wiring and heat tape. Heat tape has a life expectancy of about 3 years and eventual failure takes the form of an electrical short. When tape is placed around the water pipe adjacent to the inflammable insulation in the flooring of a mobile home, the short can ignite a fire very early. Thirteen percent of such fires are due to faulty furnaces and flues. The area surrounding furnaces, gas water heaters, stoves and so forth, should be—but is not—protected with fire retardant material. Insulation used in mobile homes should also be fire retardant.

Aside from the many sources of ignition, the second basic hazard related to fire in mobile homes is the lack of adequate escape provisions.

Since mobile homes are inherently faster burning than ordinary homes, the doors and windows should be more accessible. They have been chosen on the basis of cost and installation convenience in most mobile homes, however, and are much less accessible than those in ordinary homes. The furnace compartment opens into this hallway so the hallway would serve as the first fire chamber as a furnace fire spreads. There is no way out of the bedrooms except through this hallway. The windows, which should serve as an alternate exit, are generally too small, too high, or do not open properly to serve as an exit.

The furnace location and kitchen location, as well, should be chosen for maximum exit freedom, because of the large proportion of fires that start in both. Both kitchen and furnace should be at the ends of the trailer. The exit doors should then be located so that they will provide easy exit from the kitchen or furnace area, yet not require going through either area to exit from other parts of the house. The furnace compartment should be structurally sealed off from the rest of the house with fireproof materials. The furnace, itself, should be equipped with automatic shutoffs not only to sense the pilot going off but also to sense overheating.

The second major safety problem in wind damage. Most states and local governments do not require that a mobile home be tied down at the site. Without foundations, mobile homes are particularly vulnerable to being blown over by windstorms.

A recent Civil Defense publication estimates that high winds damage or destroy nearly 5000 mobile homes every year. Just last year, Hurricane Agnes in Florida alone resulted in the death of 8 occupants of mobile homes, the destruction of 186 units, and major damage to 456 others. And, the recent tornadoes in the Southeast on Palm Sunday destroyed 138 mobile homes, did major damage to 140 others, and more than 40 persons were killed.

Wind damage can occur anywhere in the United States. All but seven states have been characterized as high-wind-loss areas. Sustained winds of over 80 miles per hour have been recorded in most of them.

But, even in Florida where no part of the state is safe from hurricane force winds, only five counties out of sixty-seven have tie-down ordinances.

Most local ordinances do not require either over the coach ties or an adequate number of ties. Dade County, Florida (Miami), in the center of the hurricane belt requires only frame ties, and Corpus Christi, Texas, where the mobile home parks were hard-hit by Hurricane Celia calls for only two over the top ties for each mobile home, whereas the Defense Civil Preparedness Agency model ordinance specifies up to six when winds of 100 miles per hour are to be resisted.

There are other serious "over the road" hazards associated with the transportation of mobile homes such as load stability, structural integrity in a crash and hitch safety. However, no state or federal studies have been made or data collected.

Since the vast majority of mobile home owners are either retired or young persons just getting started who have put their life savings and personal possessions in the mobile home, any fire or loss imposes quite a hardship. Seventy-seven percent of mobile homeowners in Florida, for instance, are retired and the average income for a Florida mobile homeowner including social Security is $5,702.

Most losses, moreover, are not covered by warranties. The warranties are often times of very short duration and hard to comply with. Some companies for instance require the mobile home be returned to the point of purchase.

In addition, insurance companies have become more and more reluctant to insure certain models of mobile homes due to the high risk of loss involved. Consequently, insurance rates for mobile homes are considerably higher than those for standard homes. Insurance on the average $6,000 mobile home is equivalent to the insurance on a $40,000 conventional home.

INADEQUATE REGULATION

Despite the enormous increase in the production and sale of mobile homes in recent years and the known existence of the above safety hazards, all levels of government have failed to respond with effective safety regulation. The resultant confusing patchwork of local, state and Federal regulation has made it more costly to manufacture mobile homes while failing to provide protection to their occupants.

Mobile homes are not subject, for the most part, to local building codes, nor should they be. The structural characteristics of mobile homes are so different

from conventional housing built on foundations that the local ordinances, unless they contain special provisions for mobile homes have no relevance and were not intended to cover them.

Local regulation, whether specially-tailored to mobile homes or not, has not and cannot operate effectively. Since the mobile home is usually constructed outside the local jurisdiction and arrives completed, it cannot be inspected for conformity with local plumbing, heating, electrical and structural codes. Moreover, the problem created by special local regulations which are not based on general standards is that it becomes necessary to make changes in units constructed for use within the jurisdiction, which increases costs.

Thirty-six states have adopted varying versions of the mobile home code drafted by the American National Standards Institute (ANSI).

Because of the expense involved in conducting research and developing standards, the states have had to rely exclusively on the standards developed by ANSI. The code, however, has been criticized by many as not requiring usage of the latest technology and, thereby, providing inadequate protection to the consumer.

The American National Standards Institute lacks the resources for its own research and must rely on that of the industry. It is unable to conduct its own independent research to develop standards. Secondly, the Institute uses the "consensus" criterion in adopting a new standard. Rather than requiring adequate safety and quality levels, "consensus" puts its emphasis on acceptability.

Although the ANSI code is used by many states, those states that use it have referenced it in various fashions, and deleted or added standards. It certainly has not been adopted or used in a uniform manner.

Some states authorize the promulgation of the most recent edition of ANSI A119.1 and the subsequent amendments made by the American National Standards Institute. Other states adopted a specific edition of the ANSI A119.1 standards and do not authorize subsequent promulgation of amendments made to it.

LACK OF ENFORCEMENT

Even more important than the lack of adequate, uniform state standards, is the lack of enforcement by states which have codes and the great variance in their enforcement procedures. The variance in the quality and manner in which the standards are enforced, more than the standards themselves, make reciprocity between the states impossible. In a number of states, no state enforcement agency has been designated.

The enforcement agency exists only on paper in other states because no funds have been appropriated to implement enforcement or no procedures were given to the state agency for enforcement.

Many states have not implemented mobile home enforcement or inspection procedures yet. Even in those states where funds have been appropriated for enforcement of the state law adopting ANSI A119.1, inspection staffs are often too small to inspect all mobile homes sold in the state. For example, only one inspector is employed, on a quarter time basis, to enforce construction requirements for 3,700 mobile homes sold in Nebraska in 1971. Florida, where more mobile homes and recreational vehicles are sold than any other state in the nation, had only three inspectors from the time the ANSI A119.1 constructions standard were authorized. Minnesota, by comparison, employs 11 inspectors for 7,000 mobile homes sold in 1971.

A few states which have small inspection staffs allow the manufacturer to self-certify. Some States (e.g., Florida) allow the manufacturer himself to certify that the mobile home complies with the standards, while others (e.g., Maryland) may select an employee of the company who is a "state certified inspector" to inspect and certify mobile homes.

Even when sufficient funds have been appropriated for a reasonable number of inspectors, the inspection procedures used still may allow a steady flow of substandard mobile homes.

Some states use "third party" certification companies to improve the quality of enforcement. In some states, such as North Carolina, this has been an effective enforcement tool as it is financed by fees paid by the manufacturer and makes reciprocity easier.

However, in many states "third party" certification is not effective. Some state agencies fail to monitor the "third party" certifier. Also, since such companies are paid by the manufacturers, there tends to be competition between the third party certifiers for the business, resulting in cheaper rates and less stringent inspection.

RECIPROCITY

The primary weakness in the state regulatory pattern is the lack of reciprocity between the states which have adopted a state mobile home code. The effort to achieve reciprocity has been slow although a large proportion of mobile homes are manufactured in one state and sold in another.

Some States specifically exclude from construction requirements mobile home units manufactured for export to another state. Pennsylvania, for instance, recently enacted a mobile home construction code which provides that "the provisions of this section shall not apply to the manufacture or sale of mobile homes designated for *sale* or *use* outside of the Commonwealth."

Moreover, on the importing side, some states only regulate mobile homes which are manufactured in the state and not mobile homes sold in the state. Thus, units manufactured outside one of these states and sold in the state are not regulated.

Furthermore, even if the receiving state regulated both the manufacture and sale of mobile homes, mobile homes manufactured in another state without a code, a code that exempts them for export, or which does not enforce the code are effectively excluded from regulation. Inspections must be made during the manufacturing process itself, and not afterwards.

Even where states have adopted mobile home codes which are substantively comparable, there is still a reluctance to grant reciprocity. North Carolina for instance, for good reason does not trust enforcement programs of other states and believes they must personally inspect out of state mobile home manufacturers. For North Carolina, this means the monitoring of 125 manufacturers' plants located in 23 other states.

The Mobile Home Manufacturers Association and the Trailer Coach Association require members to manufacture only mobile homes which meet the ANSI standards. But, self-regulation is not the answer. Moreover, 35% of total industry production (250 firms) do not belong to MHMA or TCA and they feel no obligation to conform to any building standard not required by state law.

There is no formal regulation at the federal level either, although both the FHA and VA require that before mortgage money is lent on a mobile home, it must meet the ANSI standard. The FHA employs a "self certification" process which in reality means no regulation at all. The VA, on the other hand, has recently inaugurated a quarterly inspection of manufacturing plants by a person from each of their state offices. Experts in the industry tell me that a great deal of expertise is required to adequately inspect a mobile home and they are skeptical of the VA's capabilities in this regard. So am I.

The Federal Home Loan Bank Board has authorized Federal savings and loan associations to make loans for the purchase of mobile homes. But they do not require that the mobile home financed meet any safety standards whatsoever.

Since the FHA and VA are insuring the financing of mobile homes and the Federal Home Loan Bank issues deposit insurance for Federal savings and loan associations, fiscal responsibility alone would seem to require adherence to uniform federal standards.

THE ONLY ALTERNATIVE: NATIONAL SAFETY STANDARDS

The present patchwork of state, local and federal regulation of mobile homes has resulted not only in minimal protection for seven million mobile home occupants but also increased manufacturing costs, and therefore, in increased purchase prices. The present scheme of regulation is seriously deficient because 1) the uniqueness of size and construction of mobile homes does not lend itself to adherence to local building codes; and 2) the mass production of these homes demands standardized controls of construction so that economies of scale can be maximized and optimal efficient distribution between states can be effectuated.

Congress undoubtedly has the power to regulate the construction specifications of mobile homes under the Commerce Clause since the great majority of mobile homes are manufactured in one state and sold in another. In fact, the situation is classically similar to other areas where the Congress and the courts have acted to promote and prevent interference with interstate commerce.

Moreover, the federal government alone has the resources (government and private) available to it on a national scale to develop and enforce mobile home construction standards.

The legislation which I introduced in the previous Congress was identical to that introduced in the last and current sessions by Senator Brock: The estab-

lishment of a National Mobile Home Safety Bureau in HUD to develop and enforce mobile home safety standards.

H.R. 5224 which I have introduced in this Congress with 50 cosponsors departs in several major ways with my earlier legislation. These changes were a result of new information being brought to my attention as well as the opposition of HUD to actually enforcing construction standards, as opposed to setting standards. Also, as you are aware, our present bill has been assigned to the Committee on Interstate and Foreign Commerce, which will shortly hold expansive hearings on this legislation.

The major difference between the two bills is my inclusion of both mobile homes and recreational vehicles. My bill, H.R. 5224, would add a separate title for "Mobile Home and Recreational Vehicle Safety Standards" to the National Traffic and Motor Vehicle Safety Act.

The legislation recognizes the differences in the usage and construction of mobile homes and recreational vehicles by providing for the separate establishment and enforcement of standards for each. But, the legislative scheme includes both because many are manufactured by the same companies, involve similar construction techniques and hazards, and both are inadequately regulated. Moreover, states which have the largest population of both mobile homes and recreational vehicles—Florida, California, and Arizona—regulate both together.

Even more importantly, however, is the fact that travel trailers and motor homes, although more of a vehicle than a mobile home, are used as housing. Travel trailers are, after all, ancestors of the mobile home and are still used by a small percentage for housing. To provide federal regulation only for mobile homes would leave a serious gap which would have to be filled sooner or later.

The development of such standards would be divided between the Departments of Transportation (DOT) anl Housing and Urban Development (HUD). DOT would develop "operational" over the road safety standards and HUD would develop nonoperational—housing—safety standards.

The National Highway Traffic Safety Administration (NHTSA) in DOT will develop the over the road standards and actually promulgate all the safety standards. NHTSA's jurisdiction over the over the road characteristics of both mobile homes and recreational vehicles will be express, whereas, heretofore, it has been tenously implied under the National Traffic and Motor Vehicle Safety Act, resulting in few standards being promulgated, and standards which for the most part, do not directly apply to recreational vehicles.

The development of housing standards will be accomplished in HUD through a National Institute for Mobile Home and Recreational Vehicle Safety. The institute would have comparable status to NHTSA in DOT.

The bill does not disturb current regulation by NHTSA as existing standards and regulations promulgated under title I of the National Traffic and Motor Vehicle Safety Act shall remain in effect until replaced by either initial standards or revised standards are issued pursuant to the act. The Secretary can determine which title will best achieve the objective of safety.

Separate advisory councils—a National Mobile Home Safety Advisory Council and a National Recreational Vehicle Safety Advisory Council—are established to advise the Secretary on proposed standards. A majority of each council shall be representatives of the general public, including representatives of state and local governments, and the remainder shall include representatives of mobile home or recreational vehicle manufacturers, dealers, insurers, and nationally recognized standards-producing organizations.

Research, testing, development, and training are authorized to produce the necessary factual base and technology on which the development of federal safety standards will be based. Presently, there are no national statistics on which to base standards. Moreover, there are many resources, public and private, which can be tapped for the first time to develop adequate safety standards for mobile homes and recreational vehicles.

The criteria to be employed by DOT and HUD in developing the Standards follow:

(1) Consider relevant available mobile home and recreational vehicle safety data, including results of research, development, testing, and evaluation activities conducted pursuant to this title, and those activities conducted by nationally recognized standards-producing organizations to determine how to best protect the public;

(2) Consult with such federal, state or interstate agencies (including legislative committees as they deem appropriate;

(3) Consider whether any such proposed standard is reasonable, practicable, and appropriate for the particular type of mobile home or recreational vehicle for which it is prescribed;

(4) Consider whether any such standard will result in a substantial increase in the retail price of mobile homes or recreational vehicles and

(5) Consider the extent to which any such standard will contribute to carry out the purpose of this title,

Once standards have been promulgated, every manufacturer of a mobile home or recreational vehicle is required to submit detailed plans and specifications of each model to the Secretary for approval. This is a major change from my earlier bill because most substandard conditions which occur in mobile homes and recreational vehicles appear in the plans themselves. Thus, preapproval will catch many of the safety hazards. If the manufacturer follows the plan as approved, he cannot be held to be in violation of the federal standards.

The federal standards may be enforced by the states if they submit a plan for enforcement which is approved.

Since a number of states do have effective enforcement programs, every effort should be made to utilize that experience and also to encourage the other states to enforce the federal standards.

If the states have no desire to enforce the federal standards, enforcement will be by the National Highway Traffic Safety Administration (NHTSA) in the Department of Transportation. NHTSA has had much experience in enforcing the National Traffic and Motor Vehicle Safety Act, including the enforcement of a number of regulations affecting mobile homes and recreational vehicles.

Section 409 of the bill authorizes either third-party inspectors or qualified employees of NHTSA to enter without notice any warehouse or factory to inspect and investigate mobile homes and recreational vehicles to insure they conform to federal standards. Each manufacturer must maintain and submit such records and technical data as may be required.

If the mobile home or recreational vehicle conforms to the federal safety standards, a certification label will be affixed to each such home or vehicle. Recertification is required for every mobile home or recreational vehicle which is modified after original certification but before sale to the first purchaser.

If NHTSA or a manufacturer determines that there is a defect in any mobile home or recreational vehicle manufactured, the manufacturer is required to notify each purchases within a reasonable time after discovery of the defect and in a manner prescribed in section 410. The manufacturer is further required to remedy any defect which is found at a hearing to violate the federal standards when sold to the purchaser. This is also a major change from my earlier bill which I felt was mandated by a similar amendment to the National Motor Vehicle Safety Act.

In addition, the manufacturer of any mobile home or recreational vehicle shall either repurchase a nonconforming mobile home or recreational vehicle from the distributor or dealer or furnish complying parts and expenses for installation.

If the manufacturer refuses to repurchase or furnish conforming parts, then section 407(b) authorizes the bringing of suit for damages by the distributor or dealer against such manufacturer.

In summary, I commend the Committee and, particularly, Senator Brock for your interest in mobile home safety. Although we are pursuing different legislative routes, I hope that you conclude that only national legislation can overcome the enforcement and reciprocity problems with mobile home regulation.

Thank you.

The CHAIRMAN. Thank you, and the same goes for you, Congressman Frey.

Our next witness is Ronald Williams, Wilquest, Inc., Charlotte, N.C. Will you come around, Mr. Williams?

When was the film supposed to be run?

Mr. WILLIAMS. I believe it is scheduled now.

The CHAIRMAN. Well, suppose we run the film at this time.

[Film.]

Senator PROXMIRE. We have a statement for the record from Senator Hollings, of South Carolina, at this point.

[The statement follows:]

STATEMENT OF ERNEST F. HOLLINGS, U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

I appreciate this opportunity to provide testimony on legislation I have introduced, S. 898 and S. 899, dealing with financing and improving mobile homes.

One of the most serious domestic problems facing our Nation is the inadequate supply of housing. Production of low and moderately priced homes continues to fall far below national goals. The cost of building, owning or renting adequate housing has risen sharply, so that what is now medium-priced housing is without financial access to nearly one-half of the families in this country.

Mr. Chairman, for many moderate income families, the mobile home is the only type of house they can reasonably afford to own, and the legislation I sponsored would assist these families in obtaining adequate dwellings of this type. In the 91st Congress, I introduced a bill which permitted the Federal Housing Administration to insure loans financing the purchase of mobile homes to be used by the purchaser as his principal residence. This bill, a part of Public Law 91–152, has provided a low-cost avenue for thousands of citizens in obtaining adequate housing. Also, during that Congress, Public Law 91–506 was enacted, permitting eligible veterans to receive guaranteed loans for mobile homes as well as individual mobile home lots. The two bills I sponsored will round out the availability of Federal programs for mobile homes under all types of Government housing programs, as well as assuring the mobile home dweller that his home and property meet the requests of liveable property standards set by the Secretary of Housing and Urban Development.

First, under the existing Federal Housing Administration program, mobile home parks and the individual mobile homes are provided for, but the program does not include the combination of a mobile home and an individual lot. My legislation would permit a purchaser to receive FHA assistance for both his mobile home and his lot.

Further, my legislation would amend Title V of the Housing Act to permit the Farmers Home Administration to participate in the mobile home loan program. The constituency of the Farmers Home Administration includes the economic income bracket which would most benefit from low-cost housing. Seventy-five percent of the mobile homes delivered in 1971 were in states that contained seventy-two percent of the national rural population, and eighty-four percent of our farm population. Further, thirty-four percent of existing housing units in that same group of states are deteriorated, dilapidated, or lacking in adequate plumbing facilities. It would seem clear that this source of housing would be most beneficial in the rural areas where the lack of housing is most severe.

These bills were included as parts of the Omnibus Housing Bill of 1972, which passed the Senate, but unfortunately, this bill died in the House. Due to the impact of inflation, high interest rates and tight money, American families with middle and low incomes are effectively barred from seeking new and improved housing. These families include returning veterans, young married and retirees. A survey done by the U.S. Department of Housing and Urban Development indicates that three-fourths of these households have children under six years of age; the husband is under thirty-five and has completed at least three years of high school education; and the family income, primarily from wages, is about $6,700 per annum. It is clear that the mobile home offers these families a source of housing not otherwise available. The availability of mobile homes contribute significantly to the housing supply outside the central city and small community. According to the 21st Annual Mobile Home Financing Survey, the mobile home in America today, provides permanent housing for over seven million Americans. In addition, in 1971, the mobile home industry produced 43% of single family dwellings in the United States. By the assistance of this legislation, we can extend the advantage to many more people.

Mr. Chairman, I sincerely feel that, although mobile homes are not the whole answer to fulfilling our housing commitments, they do provide an adequate measure in easing the housing crisis in our Nation.

The CHAIRMAN. Our next witness is Mr. Ronald Williams, Wilquest, Inc., Charlotte, N.C.

Mr. Williams, as you know we have a number of witnesses this morning. The hour is getting late and we would appreciate it if you

would abbreviate your testimony any way you can. Your entire statement will be printed in full in the record so go right ahead.

STATEMENT OF RONALD WILLIAMS, PRESIDENT, WILQUEST, INC., CHARLOTTE, N.C.

Mr. WILLIAMS. Thank you. The company of which I am president, Mr. Proxmire, is one of only four or five in the country and one of only three in the southeast that finances mobile homes under the FHA title I mobile home program.

Our company purchased its first FHA loan November 1, 1972, and has since that time purchased approximately $8 million of such loans. We have seen a tremendous demand among mobile dealers and purchasers for the FHA title I mobile home financing. Except for the FHA title I mobile home loan a mobile home purchaser must pay an astronomically high interest rate of 13 or 14 percent interest.

Typically, the mobile home purchaser is the least affluent class of homeowner, least able to pay the astronomical rates demanded and obtained by the sector of our economy which controls the money sources. The more affluent class of homeowners purchasing a "site built" home has for decades enjoyed low interest rates made possible by FHA insurance.

Last year 46 percent of the sales of new single-family dwellings were mobile homes. The mobile home, despite the fact that it has had its obituary read once or twice every year by a national figure, has proven its worth and proven that it is here permanently to fill an otherwise unfilled housing demand, without Government subsidy, for persons of moderate income. The only alternative to mobile home ownership is subsidized housing because of the high construction cost of site built homes.

The per square foot cost of a furnished mobile home built under standards set by the American National Standards Institute and inspected by underwriters Laboratories is approximately one-half that of "site built" homes. This advantage of low cost brought to the mobile home purchaser is, for the most part, "gobbled up" by the high interest rates the mobile home buyers are required to pay.

FHA MOBILE HOME INTEREST RATES

However, at present, the FHA mobile home interest rates offer too much of a good thing. That is, the 7.97 percent interest rate on singlewides and 7.63 percent interest on doublewides is so low that we are required to pay very high discounts in order to sell the GNMA securities for which the mobile home loans are placed as collateral. At present——

Senator PROXMIRE. The discounts, what do the interest rates amount to?

Mr. WILLIAMS. Discount rates on the interest?

Senator PROXMIRE. The true interest for the discount rate figure.

Mr. WILLIAMS. It is about 9½ to 9¾ percent.

Senator PROXMIRE. Thank you.

Mr. WILLIAMS. It's as you can see, the stated rate plus the discount rate of 8 or 9 percent. The face amount of the securities, the GNMA securities, is approximately 133 percent of the manufacturer's invoice.

This means that the manufacturer must demand and the dealer must pay approximately 15 percent more for the product under the FHA program, thus, raising the price of the mobile home so high it becomes hard to market even at the higher price, even though there is a larger savings through the lower interest rate.

It is our calculation, based on our figures, that the average mobile homebuyer saves $2,000 even after paying the discount points on FHA loans as opposed to a conventional loan.

This problem can be reflected by passage of S. 898 giving the Secretary of HUD authority to adjust the rates in accordance with prevailing money market conditions.

This, of course, is already being done in the title II site-built FHA home program. We have two suggestions to make now——

Senator PROXMIRE. What is the status of S. 898?

Mr. WILLIAMS. I beg your pardon?

Senator PROXMIRE. Where is S. 898 pending?

Mr. WILLIAMS. It is pending before this subcommittee. It is a bill——

Senator PROXMIRE. The Housing Subcommittee?

Mr. WILLIAMS. That is correct.

Senator PROXMIRE. That is not the Brock bill.

Mr. WILLIAMS. No, sir, it isn't. This was introduced by Senators Cranston and Hollings.

Senator PROXMIRE. Thank you.

Mr. WILLIAMS. The gist of the bill, I might just briefly state the brief outline of the bill is to provide not only for financing of the mobile home but for financing of a lot on which to place it and for the financing of the improvement if, in the event that the borrower already owns the lot and has clear title to it.

The bill contains a limitation of $10,000 on a single wide and $15,000 on a double wide. We suggest that these limitations be removed from the statute and that the limitations be placed in the discretion of the HUD Secretary for two reasons:

One, is inflation in the labor and cost of materials and two, is discount points which must be contained in the final cost of the mobile home going to the purchaser.

When the economy gets in an inflation period, as now, combined with the high discount points as we have now, the cost of the home is forced upward and rather dramatically. Today a double wide mobile home costing the dealer $11,000 nets the manufacturer $9,350 after points. This, of course, doesn't provide for a very large or have a very equipped double-wide home. It would provide for a very high quality single wide. Based on our records, we will finance the maximum $15,000 on the home and pay $1,425 in discount points.

Now, of the $15,000 that we finance, that includes insurance premiums, taxes, title fees, delivery and setup, installation, freight, et cetera.

The point we are making is this. That in 2 or 3 years the limitation will have to remove—will have to be removed upward and we think it would be better that the HUD Secretary be given the routine responsibility of monitoring these costs and making these changes as the money market, as the conditions warrant.

Our second suggestion in relation to S. 898 is that where the double wide mobile home and the lot are financed as a package that the term be extended from 15 years as present to 20 years. The bill provides where a single wide mobile home is financed along with a lot that term is extended from 12 years to 15 years, but it does not provide for an extension of the term from the present 15 years on the double wide loan to a longer term where the lot is financed.

Of course, the bill provides that the lot, an unimproved lot can be financed, the purchase of it up to $5,000 and the price of an improved lot up to $7,500, so we are financing more money and we need longer terms.

Inflation in costs and discounts mean, as time passes, more dollars must be financed and therefore longer terms are needed if persons of moderate income are to enjoy the benefits of homeownership without Government subsidy.

That is what the whole title I is about, providing low-cost housing for people of moderate income without Government subsidy.

At present less than 1 percent of the more than 600,000 mobile homes purchased by persons on moderate income is being financed under the FHA program. On an average, $2,000 more interest is paid on a conventional loan than on an FHA loan. That is net of discount points. These facts mean that approximately 595,000 families of moderate income are obligating themselves for approximately $1,190 million in excessive interest charges every 12 months. Why? The money controllers are for the most part refusing to participate in the FHA program because they have a growing portfolio of mobile home loans yielding as much as 13 and 14 percent interest. This is why the banks and the large finance companies do not enter the FHAprogram. They have money with which to provide inventory financing to the mobile home dealers. They are telling their dealers in clear terms that they will not finance mobile home inventory intended to be financed at retail by an FHA-insured loan. They are using the inventory financing to tie in and control the loan which finances the retail sale.

This tactic which is being employed by more and more large finance companies and banks is cutting into and affecting the growth of the FHA mobile home program.

Manufacturers with whom we have agreements have been visited by the large finance companies and banks and advised to drop participation in the FHA program, or their products will no longer be financed in dealers' inventory, thereby making it impossible for the manufacturers to market their products. At least one manufacturer has agreed to withdraw for this reason alone. Thus, failure to provide inventory financing is crippling the program. It is not anticipated that the enactment of S. 898 alone will cause the large finance companies and banks, with inventory financing, to leave their 13- or 14-percent interest yields and come into the FHA program with much lower yields. But there are a large number of small- and medium-size mortgage companies which probably would enter the title I program if they had a means of obtaining the funds for inventory financing.

Therefore we propose that Congress authorize the Secretary of HUD to insure against dealer default loans to finance mobile home inventory, the retail sale of which is anticipated to be financed with an FHA-insured loan.

What I am saying, Senator, is that today the banks and large finance companies control the inventory financing. By controlling inventory financing, they are controlling the retail financing. By controlling the retail financing, they are demanding 13- or 14-percent interest rates, rather than the lower interest rates which every mobile home buyer would love to have.

The loans could be secured by a valid first lien on the dealers' mobile home inventory.

It is further proposed that the Secretary of HUD be authorized to issue guaranteed securities backed by the insured loans in order to generate the funds for the inventory financed program. The securities might mature in one lump sum rather than monthly, as most of the GNMA securities that are issued, are. A matured security would be replaced by a new one and so on to provide a continuous, uninterrupted flow of funds for inventory financing. FHA for years has insured construction loans, construction loans of course are merely inventory loans, with the funds advanced as the building progresses, and paid off when the building is sold. It is merely an inventory loan, and we are suggesting that the same program be offered to the mobile home finance mortgage company.

Such a program would thus break the grip held by the banks and large finance companies.

With inventory financing to offer the dealer, the small- to medium-sized mortgage companies could enter the program. As more and more of the market went to the FHA program, the larger companies then would be required to enter into it, and thus the benefits would come to the mobile home buyer.

In summary, we urge enactment of S. 898 in a form giving HUD Secretary the authority to set the maximum loan amounts, No. 1, and No. 2, to provide 20-year term for double-wide financing where the lot is included in the loan amount.

No. 3, providing insurance on loans to finance inventory without which the program is destined to operate at low levels, and without which most persons of moderate income will continue to be deprived of savings of FHA insured mobile home loans.

Senator PROXMIRE. Thank you very much.

Your following that film clip makes your testimony especially interesting and significant.

As I watched that film, it confirmed some of my suspicions about the mobile home situation, one of them being that the mobile homes are not as durable of course as permanent. As conentional homes, and unlike the situation with conventional homes, where lately they have increased, appreciated in value in almost every area of the country, and at a rather continuous rate, the mobile home tends to obviously deteriorate as well as depreciate rather rapidly.

One of the principal arguments you made was the argument that the 13- to 14-percent charge to mobile home buyers when they buy their home is not justified and you argued it is not justified because there is this insurance program available.

On the other hand, absent that insurance program, is there any data to show that that 13 to 14 percent is unreasonable? It seems to me that if there are any large number of mobile home buyers who default, repossession of one of these things would be pretty sad for

anybody who has been a lender and that, therefore, the risk would be high and therefore 13 to 14 percent might not be unreasonable.

Mr. WILLIAMS. Well, the answer to that question, I think, probably lies in the history back a few decades ago, when home loans, brick homes, which are financed on the same basis. You might recall they were financed on a 12-month renewable note, with a balloon note, at the end. It might be renewed, it might not be renewed, and the interest rates were 10, 11, 12, 13 percent, whatever the traffic would bear.

But the reason that the Federal Housing Administration was put into business was to rectify the situation. And the same situation exists today.

Now, I believe if you will check with title I of the Federal Housing Administration, this program has been in operation 3½ years. I believe, December 22, 1969, President Nixon signed the title I bill. Since that time thousands of mobile homes have been insured under the FHA program, without one single default. Not one single claim has been filed under that program.

Senator PROXMIRE. I think the fact there hasn't been any is interesting. But at the same time I presume since the program started 3½ years ago, you have only 3½-year-old mobile homes to test.

The question is when they get to be 7, 8, 10, 12 years old, whether there is anything to repossess there.

Mr. WILLIAMS. Yes, the history in mobile home financing shows that once a house gets 3½ or 4 years old, the likelihood of its being repossessed is very slow. In other words, the longer the customer lives in the house, the less likely it is he will allow it to be repossessed.

Senator PROXMIRE. A large proportion of the mobile home owners, as was testified earlier, are old people who die. As they die, they obviously move out of their homes, you have to try to sell them. To sell a used mobile home 5, 6, 7, or 8 years old I would think would be rather difficult to do. In some cases the heirs would simply permit it to lapse.

Mr. WILLIAMS. Senator, I must make a point of information there: 59 percent of the mobile home buyers are below 30 years of age. The largest single segment is the young married couple, just starting out. The retired people——

Senator PROXMIRE. Aren't many of those people who live in the mobile homes for 5 or 6 years and then move into a large home?

Mr. WILLIAMS. In many cases, this is exactly the case. The people are starting out, they are at the low end of the earning scale, they are not bad citizens, delinquents, transients, they are good solid citizens. They can't afford a $2,000 downpayment on a house; they can't afford $250 a month payment. So they have to move into a mobile home where they can get in for $500 or $600 or $700. And that includes their furniture.

Senator PROXMIRE. Will the suspension of the GNMA tandem plan include suspension for mobile homes?

Mr. WILLIAMS. I beg your pardon?

Senator PROXMIRE. Will the suspension of the GNMA tandem plan for unsubsidized programs include a suspension for mobile homes?

Mr. WILLIAMS. I don't have an answer to that question.

Senator PROXMIRE. What about the holder in due course doctrine? Do you think it is fair for a mobile homeowner to continue paying a bank for a defective mobile home?

Mr. WILLIAMS. I do not. I am a lender and I would support legislation to do away with the holder in due course doctrine, and in that fashion we would do away with many of the shady dealers. In that case we would do business only with the good dealers, and we would have them bonded, bonded for performance to service the warranties.

Senator PROXMIRE. Thank you. I appreciate that very much.

[Full statement of Mr. Williams follows:]

STATEMENT OF RONALD WILLIAMS, PRESIDENT, WILQUEST, INC., CHARLOTTE, NORTH CAROLINA

Mr. Chairman, members of the Senate Committee on Banking, Housing and Urban Affairs.

The company (Wilquest, Inc., 4822 Albermarle Road, Charlotte, N.C. 28205) of which I am president is one of 4 or 5 lenders in the country and one of only three in the Southeast purchasing (from the mobile home dealers) a substantial volume of loans under the FHA Title I Mobile Home Program.

Our company purchased its first such loan November 1, 1972 and has since that time purchased approximately $8,000,000 of such loans. We have seen a tremendous demand among Moble Home dealers and purchasers for the FHA Title I financing. Except for the FHA Title I Mobile Home Loan a mobile home purchaser must pay an astronomically high interest rate of 13% to 14%. Typically the mobile home purchaser is the least affluent class of home owners, least able to pay the astronomical rates demanded and obtained by the sector of our economy which controls the money. The more affluent class of home owners purchasing a "site built" home has for decades enjoyed low interest rates made possible by FHA insurance.

During 1972 46% of sales of new single family dwellings were mobile homes. The mobile home, despite the fact it has had its obituary read every 2 to 3 years by a Secretary of HUD or other national figure, has proven its worth and that it is here permanently to fill an otherwise unfilled demand for housing, without subsidy, for persons of moderate income. The only alternative to mobile home ownership is subsidized housing, because of the high construction costs for site built homes.

The "per square foot" cost of a furnished mobile home built under standards set by the American National Standards Institute and inspected by Underwriters Laboratories is approximately one-half that of "site built" homes. This advantage of low cost brought to the mobile home purchaser is, for the most part, "gobbled up" by the money lenders through the astronomically high interest rates.

MOBILE HOME FHA INTEREST RATES

Presently the FHA Title I Mobile Home Program has too much of a good thing. The interest rates are set at 7.98% on singlewides and 7.63% on doublewides. The FHA–GNMA insurance premium must be paid out of these rates rather than added to them as with Title II "site built" home loans. After the insurance premium and the servicing fee are paid there is a 6% rate left for the GNMA securities purchaser. Today's high money market demands 8% to 9% discount from the face amount of the securities. The face amount of the securities equals the fact amount of the mobile home loans pledged as collateral for them. The face amount of the mobile home loan is approximately 133% (includes mobile home physical damange insurance premium, sales tax, title and recording fee, etc.) of the manufacturer's invoice which means that the manufacturer must demand from the dealer approximately 15% more for his product under the FHA Program, thus raising the price of the mobile homes so high it becomes hard to market even though, at the higher price, with the lower interest rates the purchaser realizes a net savings.

The problem can be rectified by passage of S. 898 giving the Secretary of HUD authority to adjust the rates in accordance with prevailing money market conditions.

SUGGESTIONS IN RELATION TO S. 898

(1) It is suggested that all of (I) contained in lines 3–5, page 3 providing a limitation of $10,000 loan amount on a singlewide and $15,000 on a doublewide be replaced by language allowing the Secretary of HUD to set the maximum limitations by regulation, the reason being that, based on our past history, costs of mobile homes will continue to be forced upward and eventually above these limitations by two factors:

(A) Inflation in labor and materials costs.

(B) Discount points which must be contained in the final cost of the mobile home to the purchaser.

When the economy gets in an inflation period, as now, combined with high discounts, as now, the cost of the mobile home is forced upward. Today a doublewide mobile home costing the dealer $11,000 nets the manufacturer $9,350 after points. ($9,350 does not buy a very large doublewide mobile home.) Based on our records we will finance the maximum $15,000 on the home and pay $1,425 in points on the security.

The point is this—it is likely that within 24 to 36 months these limitations will need to be adjusted upward. The question is—would it not be better to authorize the Secretary of HUD to routinely monitor costs and make adjustments in these limitations than for 500 odd members of Congress to try to do so?

(2) It is suggested that the term of the loans financing the purchase of a doublewide mobile home and lot be extended to twenty years. S. 898 extends the term of the loan financing the purchase of a singlewide mobile home from 12 years to 15 years when the lot is included.

(A) For the same reason the term of the loan on a singlewide plus lot is extended, the term of the loan on a doublewide plus lot should be extended, i.e., the loan is $5,000 to $7,500 larger because of the purchase price of the lot.

(B) Inflation in costs and discounts mean, as time passes, more dollars must be financed and therefore longer terms are needed if persons of moderate income are to enjoy the benefits of home ownership without government subsidy.

At present less than 1% of the more than 600,000 mobile homes purchased by persons on moderate income is financed by an FHA Insured Mobile Home Loan. On an average, approximately $2,000 more interest (net of discount points) per mobile home loan is paid by the mobile home purchaser under a conventional loan than under an FHA Insured Mobile Home Loan. These facts mean that approximately 595,000 families of moderate income are obligating themselves for approximately $1,190,000,000 in excessive interest charges every year.

PROPOSED AMENDMENT

The money controllers (Large Finance Companies and Banks) are, for the most part, refusing to participate in the FHA Program because they have a growing portfolio of mobile home loans yielding a much higher 13% to 14% interest. They have money with which to provide inventory financing to the mobile home dealers. They are telling their dealers in clear terms that they will not finance mobile home inventory intended to be financed at retail by an FHA Insured Loan. They are using the inventory financing to tie-in and control the loan which finances the retail sale. This tactic which is being employed by more and more large finance companies and banks has cut our volume from a peak $1,200,000 per month in the winter months to approximately $600,000 per month presently, (normally summer months are higher volume months). Manufacturers with whom we have agreements have been visited by the large finance companies and banks and advised to drop participation in the FHA Program, or their products will no longer be financed in dealers' inventory, thereby making it impossible for the manufacturers to market their products. At least one manufacturer has agreed to withdraw for this reason. Thus, failure to provide inventory financing is crippling the program. It is not anticipated that the enactment of S. 898 alone will cause the large finance companies and banks to enter the FHA Program.

There are a number of small to medium size mortgage companies which might enter the Title I Mobile Home Program if they had a means of financing inventory.

It is proposed that Congress authorize the Secretary of HUD to insure, against dealer default, loans to finance mobile home inventory the retail sale of which is anticipated to be financed with an FHA Insured Loan. The loans would be secured by a valid first lien on the dealer's mobile home inventory.

It is further proposed that the Secretary of HUD be authorized to issue guaranteed securities backed by the insured loans in order to generate the funds. The securities would mature in one lump sum rather than monthly. A matured security would be replaced by a new one and so on to provide a continuous, uninterrupted flow of funds for inventory financing. FHA for years has insured construction loans which, of course, are inventory loans.

Such a program would thus break the grip held by the banks and large finance companies.

With inventory financing to offer the dealer, the small to medium size mortgage companies could enter the program. As more and more of the market went FHA the large finance companies and banks would be brought into the program because of competition.

The CHAIRMAN. Thank you very much, Mr. Williams.

Now we will have a panel.

Mr. John R. Ingram, commissioner of insurance, State of North Carolina; Mr. Kern E. Church, chief engineer, Engineering and Building Codes Division, North Carolina Department of Insurance; and Mr. Jack Bono, assistant chief engineer, Underwriters Laboratory.

STATEMENTS OF JOHN RANDOLPH INGRAM, COMMISSIONER OF INSURANCE, STATE OF NORTH CAROLINA; KERN E. CHURCH, CHIEF ENGINEER, ENGINEERING AND BUILDING CODES DIVISION, NORTH CAROLINA DEPARTMENT OF INSURANCE; JACK A. BONO, ASSISTANT CHIEF ENGINEER, UNDERWRITERS LABORATORY

Mr. INGRAM. Thank you, Mr. Chairman. Senator Proxmire.

We are trying to apportion our time approximately 5 minutes each. I believe there was 10 minutes allotted.

The CHAIRMAN. Very well.

Mr. INGRAM. While the intent of Senate bill 1348, the National Mobile Home Safety Act of 1973, is good, I believe that intent must be considered in the light of consequence. If Senate bill 1348 is enacted as it is presently written, it would render useless the effective program we now have in North Carolina which definitely protects the public from the manufacture of unsafe mobile homes.

Because Senate bill 1348 takes away rather than adding to the public's protection, I am opposed to its enactment unless it is amended so that the public would be guaranteed even greater protection than is now given in North Carolina.

Recognizing that mobile homes received little or no regulation, the North Carolina General Assembly in 1969 enacted a law to require all mobile homes manufactured——

Senator PROXMIRE. Are you referring to S. 1348?

Mr. INGRAM. No, sir. This is legislation in North Carolina we are referring to.

Senator PROXMIRE. When you say you object to the Federal legislation, it is S. 1348, the bill before us?

Mr. INGRAM. Yes, sir.

Senator PROXMIRE. Thank you.

Mr. INGRAM. Recognizing that mobile homes received little or no regulation, the North Carolina General Assembly in 1969 enacted a law to require all mobile homes manufactured, sold or offered for sale in North Carolina to be manufactured in accordance with national standards.

The 1969 act also preempted local inspection of mobile homes provided they were evaluated, tested and inspected by an independent agency approved by the North Carolina Building Code Council. These inspections are in turn monitored by the North Carolina Department of Insurance which approves plans and makes plant inspections to see that the mobile home manufacturers are in fact meeting North Carolina standards.

The 1971 General Assembly rewrote the 1969 act and made it mandatory that all mobile homes manufactured to be sold in North Carolina after September 1, 1971 must have the "label of compliance" of an independent agency approved and licensed by the State Building Code Council.

Since this law was enacted in 1969, 15 other States have adopted similar laws and procedures, utilizing the services of an independent third party, or a combination of third-party services and in-State evaluation and inspection.

I might insert here that the presentation prepared by the Mobile Home Manufacturers Association recognize North Carolina as one of the strong State inspection systems.

Senate bill 1348, if enacted, would circumvent North Carolina's inspection program which has led the way in fairness and in protecting the public.

In its place, Senate bill 1348 would allow mobile home manufacturers to self-certify that their mobile homes meet Federal standards. The act has a number of deficiencies that are definitely not in the public interest:

(1) It does not provide for the approval of plans by a regulatory agency;

(2) There is no requirement for factory inspections to see that construction standards are being met;

(3) There is no requirement that a State must have competent personnel to approve plans or make factory inspections in order for a Federal agency to approve any State plan.

Since North Carolina is the third largest State in the use of mobile homes, it is extremely important that these mobile home buyers be protected from faulty, inadequate, and unsafe construction.

A Congressman from the Southeast introduced a bill in the last session of Congress which was similar to Senate bill 1338. However, this same Congressman reversed himself this year and has introduced legislation which provides for plan approval and inspections as well as authorizing independent third party inspections.

To cite one difference in how various State inspections systems now work, one State in our section of the country has three State employees who inspect 17 plants. As a comparison, North Carolina uses 2 man-years for 43 plants.

However, these 2 man-years are spent by North Carolina's nine engineers and five inspectors monitoring direct inspections by Underwriters Laboratories, Pittsburgh Testing Laboratories and the United States Testing Co.

Within North Carolina, these three independent testing agencies provide us with an additional 17 man-years which include the services of six engineers. In addition to that, every trailer sold in North Carolina must bear the label of one of these independent testing agencies

which means that North Carolina is getting the additional benefit of 50 engineers and 138 inspectors in as many as 28 other States which may ship mobile homes to North Carolina from some 271 plants.

As Deputy Commissioner Kern Church will point out, the first proposal in North Carolina was for self-certification. However, to quote Bismarck, legislation, like sausage, should not be observed in the making. There is many a slip between the cup and the lip, and the self-certification bill in North Carolina was abandoned for the third party independent agency inspection approach. This slip was in favor of the public.

The North Carolina approach seems the most reasonable because it creates neither a Federal nor State bureaucracy. Under the self-certification approach, the only alternative to provide protection to the public would be a State staff of 6 engineers and 11 inspectors in our State. This would give no assurance that mobile homes from out-of-State would be constructed according to these identical standards. The only alternative to the uniformity of inspections North Carolina is receiving through the benefit of 50 engineers and 138 inspectors would be a Federal bureaucracy. As I see it, this is the crux of the matter.

To sum up, 3 inspectors in a State with 17 plants cannot protect the public as well as the North Carolina system which utilizes the services of the three independent inspection agencies and their massive manpower.

I have here a drop cord with the UL label. My parents relied on this UL label before I ever came into this world. I am still relying on this system of protection, and I am sure my children will. This is the same type system North Carolina relies on for protection in mobile homes.

When I campaigned for the office of commissioner of insurance, I pledged to the people of North Carolina that I would work for a "new spoon of fairness" in all areas within the commissioner's jurisdiction. We have made great strides in bringing about significant reforms in insurance. These reforms will greatly benefit the people while fulfilling my vision of fairness.

To cite just one instance, the eyes of the Nation are on North Carolina's reinsurance program for automobile liability insurance, the first reinsurance program for automobile liability insurance, the first reinsurance program ever enacted in the United States. We are paving the way for a complete overhaul in automobile insurance that will end blatant discrimination against the public.

At the same time, North Carolina has led the way in protecting mobile home buyers from shoddy, inadequate, and unsafe construction. To offer any less protection would be a step backward. In North Carolina, we believe the public not only demands but deserves that we go forward with true consumer reforms.

Before deferring to Deputy Commissioner Church, I would like to point out that we certainly agree with the strong warranty standards in your State, Senator Proxmire, and I think the thrust of our argument here is that if a State has stronger standards, as you gleaned from the first witness, that certainly those standards should be applicable.

Mr. Church.

Mr. Church. Before I start, Mr. Chairman, I would like to request that my comments in support of Commissioner Ingram's comments

on the State of North Carolina program be inserted in the record at this time.

I would also request that my comments pertaining to the National Conference of States on Building Codes and Standards be inserted in the record, and I will not read those comments.

The National Conference of States on Building Codes and Standards is an organization of State delegates appointed by the Governors of the 50 States who have responsibility for building codes and standards.

The conference is only 6 years old, but it has made great strides in establishing the State's role in regulations to protect the public health and safety in all types of buildings.

I served as chairman of the conference during the year 1971–72, and have served as chairman of the reciprocity committee since that time, and served on the executive committee since NCSBCS was organized.

You will note in my presentation I have a letter where the executive board passed a resolution authorizing me to appear to state the national conference's position on this bill.

The conference is not against the intent of S. 1348. In fact, it is highly commendable and it ties right in with the programs of the national conference.

In fact, the conference is for uniform standards insofar as possible in order to make it easier for mobile home manufacturers to manufacture to the standard, and probably it would make it a little cheaper in the long run for the consumer to buy.

However, where the conference differs on S. 1348 is on the method of enforcement provided for.

As we understand it, and this is in accordance with the policies and the resolutions passed by this national conference on several occasions, this bill requires the manufacturer to self-certify and authorizes the Federal agency to make inspections, but there is no requirement for any plan approval, and no requirement for any inspections to be made.

This same type of authorization for you might say regulation has been passed in a number of States, and I think you can see, it is very evident that the adequate inspection to protect the public has not been done, because it was not specified in the statute to do it.

The same kind of legislation was proposed in North Carolina in 1969. In fact, the chairman of the senate committee, the vice chairman, and over a majority of the senate committee members signed a bill as introducers, and they thought this bill would protect the public. However, before the legislature was over, all the members of that committee endorsed and supported wholeheartedly the committee substitute, which did provide for plan approvals and also plant inspection, in order to provide protection to the public.

You will also note in my statement on North Carolina, to digress a minute, a statement from the North Carolina League of Municipalities supporting the North Carolina method of enforcement of the standards.

You have a statement in there also from the council of code officials, which represents all of the building, plumbing, heating, and electrical inspectors in the State, supporting this program, and how it has increased the safety of mobile homes throughout the State.

There is also a letter in there endorsing the North Carolina method of enforcement of the standards from the North Carolina Manufacturers Housing Institute, which has supported the program.

And also you will note that in 15 States they have approved at least one of these same third-party inspection programs, and this means that these 15 States will accept units manufactured in 28 different States under the same kind of inspection system. And we do have, I believe, two States which have reciprocal agreements, where the States are doing the inspection. I believe those are the States of Florida and Georgia who accept each other's State labels.

Under Senate bill S. 1348, in order for the Federal agency to approve a State plan, the State plan has to be equivalent to the Federal plan. We interpret this to mean if the State authorizes inspections and provides for self-certification, then the State plan would be approved. We do not think, for instance, that the North Carolina system of inspection using the third-party, or the California system of inspection using the State inspectors, which both do protect the public, we do not think that it would be equivalent if these two systems were accepted and also you accepted States with lesser inspection systems.

In other words, if you only authorize inspections and don't in fact provide personnel to do the inspections and approve the plans, this doesn't do the same job.

So we think you would create inequities in S. 1348. It is very evident that the systems adopted by the States which only authorize inspection do not require adequate inspections and that the public is not being protected. So it is apparently a difference as to the method of enforcement with our friends in the industry.

I think, in fact, if you will notice in my statement, our industry friends have endorsed practically all of the statements in regard to how best to enforce the standards to protect the public that this National Conference has adopted in the "model act" and the "general principles." But S. 1348 does not even comply with their recommendations on how to enforce the standards. They recommend that the State have competent adequate personnel to enforce the standard or to approve third parties to do it and monitor them. This bill does not require this.

Now why choose the self-certification method of enforcement for mobile homes, when all localities, cities and counties throughout the United States require local plan approvals and local inspection of stick-built homes and other kinds of buildings?

It would be analagous to requiring that all of the building contractors and home builders throughout the United States self-certify to a Federal agency and do away with all local inspections. I don't believe this would be adequate nor protect the public.

I do have in my testimony for the National Conference of States on Building Codes and Standards the general principles that our Conference recommends which should be incorporated in Federal legislation. And we think you should incorporate within this Federal legislation the same requirements for enforcement equivalent to what we have in what we call our "Model State Mobile Home Act."

This Conference has written, together with representatives of the manufacturers, representatives of HUD, representatives of Commerce, and representatives of the local building officials organizations at the

national level, a Model Mobile Home Act, and this has been presented to the Council of State Governments, it has been approved by them, and will be a part of the package recommended by the Council of State Governments this fall.

Senator PROXMIRE. Can you provide a copy of that for the record?

Mr. CHURCH. Yes, sir, I have a copy of that (see page 1020).

All of the legislation that has been passed by the States in the past has been that which has been recommended by the industry organizations and has not been prepared or had any input in it from the National Conference.

The general principles we have outlined—I will have to sum them up with a comment or two. But we have about seven principles we think should be incorporated into the legislation to protect the public.

We think the Federal agency should only assume responsibility when a State does not and be directed to perform or require the States to perform these functions: Review and confirm that all plans comply with the standards. Second, to perform plant inspections sufficient to assure compliance. And then we think the Federal agency should be directed to specify the independence and qualifications of any agency the State approves to do some of the work for them, and to specify the qualifications of the State engineers and inspectors also, and provide for acceptance and monitoring of all independent agencies the States have approved and also monitoring of all of the State agency plans that have been approved by the States, because the State people are really the ones who assume the final responsibility, unless the Federal agency has assumed it, to do the job themselves.

With that, I think I have taken my 5 minutes. I would urge you to read these general principles we have outlined in the testimony and I would close with this comment: As chairman of the legislative committee, I would like to work with this committee or their staff, any way you see fit, and work with you to try to amend the bill so it would provide for the protection of the public as intended in accordance with the National Conference recommendations.

While we agree with the intent of the bill, we do not think the bill does this, and we would like the opportunity to present written amendments.

I have written amendments from my own State that we have prepared in the past, during the last session of Congress, which are applicable. But these have not been cleared through the National Conference. I would be glad to clear these written amendments and then submit to the committee written amendments by the National Conference of States on Building Codes and Standards, which we think would improve the bill and provide protection to the public which we think is the intent of the bill.

Thank you.

[The complete statements of Mr. Church follow:]

PRESENTATION OF THE NATIONAL CONFERENCE OF STATES ON BUILDING CODES AND STANDARDS

Mr. Chairman and members of the subcommittee, thank you for the opportunity to appear on behalf of NCSBCS. My presentation will be confined to policies and recommendations endorsed by several committees including the Executive Committee and the delegates of the National Conference of States on Building Codes and Standards.

NCSBCS is an organization of state delegates appointed by the Governors of the fifty states and in the instances where the state has assumed responsibility for codes and standards, the official so appointed is usually the person who has the greater responsibility in this area. I am Kern E. Church, Chairman, NCSBCS Legislative Committee. NCSBCS Executive Committee adopted a resolution (copy attached) authorizing me to appear on behalf of NCSBCS in accordance with the NCSBCS policies. I served as Chairman of the Conference during the year 1971–1972 and have served as Chairman of the "Reciprocity" (Interstate Acceptance) Committee since that time and served on the Executive Committee since NCSBCS was organized.

Although the Conference is only six years old, considerable headway has been made towards establishing the states as having a major role in the building regulatory process. Up until a few years ago, only a few states had a technical state staff enforcing building codes or providing assistance to local building officials responsible for building regulations and consequently, when manufactured building and mobile home standards enforcement and similar building regulations were adopted by state legislatures, many states have been hard put to quickly implement such regulations. Providing for uniform implementation of uniform standards for manufactured buildings and components and mobile homes crossing state lines is a challenge NCSBCS has accepted and this has emphasized the urgent need for the NCSBCS organization and its programs and meeting this challenge is NCSBCS's highest priority.

The goals of the Conference are to provide a forum for the discussions of mutual problems of state officials and to work on mutually acceptable solutions. NCSBCS constitutional policy is to cooperate with national organizations of local building officials, agencies of the federal government such as Commerce and HUD and national professional, trade and industry organizations who are concerned with building codes. Utilizing this cooperative process, representatives of these organizations drafted a "Model State Building Code Act," "Model Manufactured Building Act," and "Model Mobile Home Act" which have been approved by the Council of State Governments and will be included in their recommended state legislation this fall. "Model Rules and Regulations" to implement the "Manufactured Building Act" has been developed under this cooperative procedure and "Model Rules and Regulations" to implement the "Model Mobile Home Act" will be developed under the same procedure.

NCSBCS has three main broad-based Standing Committees which are the "Standards and Evaluation Committee", "Education and Qualifications Committee" and the "Management and Regulatory Committee" which have membership including representatives from the state and local government and trades and professions and the industries affected. These Committees are working with the National Bureau of Standards and the Department of Housing and Urban Development on various research projects which should assist the implementation of codes throughout the building community.

Since mobile homes are shipped across state lines very easily, the delegates and membership of NCSBCS has recognized that mobile homes and other factory built structures need to be evaluated and inspected for protection of the public health and safety and there also needs to be provisions for interstate acceptance. Research is now being performed on behalf of NCSBCS by the National Bureau of Standards to provide for procedures for uniform qualifications of persons performing evaluations and inspections of all types of manufactured buildings throughout the United States and also uniform procedures for making evaluations and inspection. This research work has not been completed for NCSBCS so that NCSBCS can process these procedures through its policies of cooperating with the various organizations and industry involved.

You can readily see that NCSBCS is diligently working towards solving the problem of uniform implementation of standards among the states.

Although these uniform procedures and methods are not now available, NCSBCS has organized the state officials which have direct responsibility for implementation of the codes to work through NCSBCS in accordance with its policies in order to accomplish the goals of NCSBCS. The "Reciprocity" (Interstate Acceptance) Committee is composed of state officials which have direct responsibility for one or more of "State building code regulations", Manufactured building regulations" or "mobile home regulations." NCSBCS had endorsed for the use of the Reciprocity Committee "Rules for Committee Activities", Procedures for Developing Recommendations on Uniform Effective Dates of State Adopted Standards" and "Procedures for Developing Recommendations on Disputed Interpretations."

All the states are at various stages of implementation of state adopted standards but cooperative processes have been set up to provide for uniform standards and uniform application of standards by utilizing the "Model Mobile Home Act", "Model Rules and Regulations" and Reciprocity Committee Procedures in accordance with the policies of NCSBCS. All states should be encouraged to adopt and implement this "Model Mobile Home Act" or equivalent provisions so the "Reciprocity Committee" will be able to cooperate on a more uniform basis to provide for more immediate uniform effective enforcement among the states.

NCSBCS SEEKS SUPPORT OF MOBILE HOME INDUSTRY FOR NCSBCS PROGRAMS

The following are recommendations which mobile home manufacturers and their associations should support to protect the public safety and to assist in the reciprocity process as adopted by the Reciprocity Committee and endorsed by NCSBCS:

"(1) Make a clearly worded public policy statement (which will also be defended in private) supporting effective enforcement of the nationally recognized model codes and standards in the following manner:

(*a*) Implementation by competent unbiased third party agencies which are commonly approved and jointly monitored by the participating states or

(*b*) Implementation by competent state agencies which are jointly monitored by the reciprocating states.

(*c*) Insist that the states technical criteria for acceptance of reciprocal interstate agreements and approval of independent third parties be the same including joint state monitoring and that such criteria be uniform from state to state.

(2) Support processes for the education of the many sincere manufacturers on how to comply and processes for persuading the few remaining manufacturers to make the decision to comply instead of trying to find ways and means to get by without complying.

(3) Publicly and privately support and request the authority having jurisdiction to require unbiased and competent evaluations and inspections which will require compliance before labels are issued.

(4) Support efforts to provide for more uniform state laws which would encompass the main provisions and intent of the "Model Mobile Home Act" and to provide a system of code enforcement to require all manufacturers to comply whether they wish to or not.

(5) Publicly and privately support the premise that all states adopt nationally recognized codes and standards applicable to mobile homes and that such codes be clearly worded and complete to the end that manufacturers which wish to use either the specification, design or test approach to comply will clearly understand what is required and that state agencies and third party agencies can interpret uniformly and implement fairly to all.

(6) Publicly and privately support the premise that all state and third party agencies which perform evaluations and inspections must have a sufficient number of engineers who are competent to evaluate the structural, plumbing, heating and electrical systems in accordance with the codes and standards and a sufficient number of inspectors who are competent to inspect the structural, plumbing, heating and electrical systems in accordance with their engineers' certification report approving the plans and specifications to assure compliance on all units produced.

(7) Publicly and privately insist that third party agencies which are approved as an agent of the state to evaluate or inspect and label mobile homes to preempt local inspection of "closed construction" systems be free of conflict of interest so that no manufacturers will be favored over any other manufacturers. This would include insisting that such third party agencies must not in any way be connected with manufacturers or producers of products or materials where it could appear that any mobile home manufacturer might be favored.

(8) Publicly and privately insist that the evaluation and inspection by all third party agencies approved by the state (including state approved reciprocating state agencies) be monitored by each state (with joint state monitoring where possible) to the end that all will implement the requirements of the codes and standards uniformly and will require all manufacturers to comply whether they wish to or not.

(9) Provide support for each state to have a sufficient state staff of competent engineers and inspectors to perform the work they are responsible for. If the state agency is performing all the evaluations and inspections, continuing support must be given for the large staff that would be needed to protect the public. If

the state is to monitor third party evaluations and inspections, support for the smaller staff should be given.

(10) Contact the state department heads and support the responsible state code administrators in attending state code administrators meetings through the Reciprocity Committee of the National Conference of States on Building Codes and Standards and support their joining joint inspection teams with other states to monitor commonly approved inspection agencies in order to build their confidence in the evaluations and inspections not performed by them."

An acceptable evaluation and inspection system must convince responsible, competent state and local officials, the general public and sincere and knowledgeable manufacturers that all manufacturers are required to comply with nationally recognized codes and standards, whether they want to or not, if they are to display an acceptable identifying label and enjoy the privilege of interstate reciprocity and acceptance among the states.

POSITION OF NCSBCS ON FEDERAL MOBILE HOME LEGISLATION

The following statement of position of the Reciprocity Committee was endorsed by the Executive Committee and the delegates as the official NCSBCS position on federal legislation:

"The National Conference of States on Building Codes and Standards fully recognizes the need for uniform nationwide application and enforcement of safety standards for mobile homes and recreational vehicles to properly safeguard the consumer public."

"During the past years, federal bills have been introduced to treat with the problem of non-uniformity of mobile home and recreation vehicle regulatory standards and enforcement. New legislation is imminent. While the intent of these bills may be well meaning, careful study indicates they may not accomplish their goal, but may be contra-productive and detrimental to existing state programs which have made significant progress. Numerous reasons can be enumerated to support this conclusion."

"States have, through participation in NCSBCS recognized the need for development of uniform codes and standards in all areas of construction, including those for mobile homes, and have constructively been developing model state acts. One of these acts is a "model state mobile home act" which has received endorsement by the National Conference of States on Building Codes and Standards (NCSBCS)."

"NCSBCS also supports the concept of uniform national construction and safety standards for mobile homes and recreational vehicles such as ANSI 119.1 and 119.2 and urges all states adopt such standards."

"Through its action and the action of many individual states significant progress has been shown in the implementation of full regulatory programs as evidenced by programs now in existence in several states. Over thirty states now have mobile home and recreational vehicle regulatory programs in various stages of implementation, and given the necessary incentive, will develop uniform, acceptable regulatory programs in their states with coordination through NCSBS programs. A majority of states having mobile home production facilities within their borders have already or are now in process of adopting the same nationally recognized standards."

"Inasmuch as great effort has been expended by members of NCSBCS and many other cooperating groups and organizations in their work to promote and develop practical means for accomplishing the goal of uniformity of codes and standards and reciprocity between states, and a great effort has been made by many states that are in process and have already developed effective regulatory systems, we sincerely believe a practical approach to the solution of this complex problem lies not in abandonment of present programs, but in the continued utilization and further development of present state regulatory systems until all states have satisfactory mobile home and recreational vehicle regulatory systems."

"Individual states failing development and implementation of acceptable regulatory systems for mobile homes and recreation vehicles should be put on notice that federal regulations shall apply in their state if they have not implemented a program and come into full compliance by a specified time."

Consideration should be given towards any federal legislation to assist the states in assuming their responsibilities as outlined by the goals and policies of NCSBCS. Most of the present state legislation on mobile homes was sponsored by MHMA, TCA and SEMHI and state mobile home associations and NCSBCS

had no input into their recommended legislation and had no recommended model state legislation until this year. If federal legislation is passed, consideration should be given towards incorporating the features of the NCSBCS "Model Mobile Home Act" which was drafted by representatives of NCSBCS, CABO (National Associations of Local Building Officials), mobile home manufacturers, Department of Commerce and the Department of Housing and Urban Development. The Council of State Governments has approved this act for inclusion in its recommended state legislation this fall. Any federal legislation should encourage state adoption of this act or similar provisions.

Although the mobile home industry does not have a national organization representing mobile home manufacturers, NCSBCS did put its best effort towards coordinating this act with the mobile home industry. A knowledgeable person representing the largest manufacturer of mobile homes in the United States served on the Committee and several draft copies were sent with request for input and comment to the three major trade organizations of manufacturers which are MHMA, TCA and SEMHI. Staff representatives of MHMA also attended the drafting meeting from time to time and made oral and written suggestions. There were written suggestions made from TCA also.

POLICIES AND RECOMMENDATIONS OF PRINCIPLES FOR INCORPORATION IN FEDERAL MOBILE HOME LEGISLATION

If the Congress determines that federal legislation is needed and S–1348 is to be utilized, the following NCSBCS policies and recommendations of general principles adopted by the NCSBCS Reciprocity Committee for incorporation in federal legislation should be given consideration:

"(1) Recognize the validity of existing effective state mobile home and recreational vehicle regulatory programs, which accept units crossing state lines which have been evaluated, inspected and labeled in conformance to criteria uniformily acceptable to all states.

(2) Establish a reasonable time period for states not now having effective mobile home and recreation vehicle regulatory programs to develop and implement such programs.

(3) States failing implementation of an effective program within the stipulated time period would then be subject to an effective federal program including evaluation, inspection and labeling in accordance with the same criteria accepted by the states, with fees to be levied commensurate with the cost of services provided.

(4) Before mobile homes are required to be accepted by any state or other political subdivisions, under any federal or state enforcement system, the labels or the certificates indicating compliance must assure that representative samples of such mobile homes have been evaluated and inspected in the plant by federal or state personnel (or their approved and monitored independent agent personnel) who are competent to evaluate and inspect the structural, mechanical and electrical features for compliance with the mobile home safety standard and that sufficient in-plant inspections are made by such unbiased personnel to assure that all units produced are in compliance.

(5) The responsibility for the developing and amending of the mobile home standard must be under the jurisdiction of a duly appointed balanced Board consisting of persons who are competent to evaluate and inspect mobile homes for compliance with mobile home standards, which should consist of representatives of the state and local code enforcement officials, the design professions, consumers, independent testing organizations, independent inspection organizations, insurers and mobile home manufacturers.

(6) In states without an inspection program, the federal agency should be encouraged, to the extent practicable, to contract with competent independent private inspection agencies which specialize in such work for their inspection in lieu of hiring an army of federal inspectors and federal engineers which would be required if the federal government assumed the responsibility to make sufficient inspections to protect the public.

(7) The inspection of used mobile homes should be under the jurisdiction of the State and their legal subdivisions.

The "SEMHI Position Statement on Standards" published in the Southern Building Code Congress magazine, January 1973 (copy attached) closely parallels the NCSBCS position on "competent and effective enforcement" of mobile home standards by the states and we understand that SEMHI is vigorously

supporting S–1348 which NCSBCS does not think incorporates the "NCSBCS position" nor the "SEMHI Statement on Standards."

Although there is apparently full agreement on the intent of S–1348, there is an apparent honest difference of opinion on the "methods of implementation of the standard" provided for in the Bill itself.

S–1348 is almost identical to S–3604 introduced by Senator Brock on May 15, 1972 and H.R. 14716 introduced by Congressman Frey on May 2, 1972.

On behalf of NCSBCS, based on NCSBCS policy statement and specific action, I recommend that a unfavorable report be given to S–1348 as it is presently written.

If S–1348 is to be utilized, I would be glad to submit specific amendments on behalf of NCSBCS and since there seems to be an honest difference of opinion as to the methods to provide protection to the public as intended by this legislation, I would be glad to work through NCSBCS and assist this Committee in drafting amendments to clarify this bill so that state enforcement personnel can interpret the bill to provide the protection to the public as intended.

If you wish, I would also be glad to meet with your staff and representatives of national association of mobile home manufacturers, national organizations of local building officials, concerned federal agencies, consumer groups and other interested organizations to explore the possibilities of mutually acceptable amendments.

In my opinion, your constituency, the mobile home manufacturers clients, and the persons protected by code enforcement officials are all the same people and we all have concern for their safety.

Thank you for your consideration.

AN OUTLINE.—of the programs of the National Conference of States on Building Codes and Standards for achieving reasonable national uniformity in the regulations of buildings and the acceptance of industrialized buildings crossing State lines.

I. CODES, STANDARDS, TESTING AND EVALUATION

(Standards and Evaluation Committee Donald F. Pinkerton, Chairman.)

A. Obtain prompt national agreement through MCSC and ANSI of a standard building code framework consisting of: (1) Standard definitions; (2) Standard classification of occupancies; (3) Standard classification of construction types; (4) Standard format.

B. Obtain early completion through the standards-generating organizations, the model code groups, and ANSI of a full range of building regulatory standards for "plug-in" or reference use with the standard code framework. Standards to meet the following criteria: (1) To be performance oriented; (2) To be kept continually up-to-date; (3) To represent best available national consensus of technically competent representatives of all groups affected.

C. Encourage local and State adoption of building codes using the standard framework and standard requirements as soon as they become available.

D. Support completion of a long-range program for broadly based accreditation program for test laboratories and for evaluation, inspection and labeling organizations.

E. Identify or obtain development of evaluation mechanisms of interstate acceptability for the approval of safe building innovations.

F. Cooperate with and assist NCSBCS Reciprocity Committee in all matters of common interest.

G. Represent NCSBCS in standard and evaluation matters on broad policy groups such as ANSI, MCSC, NIBS, etc.

II. EDUCATIONAL AND QUALIFICATION OF ENFORCEMENT PERSONNEL

(Education and Qualification Committee—Glen Swenson, Chairman)

A. Gather information on existing education and training opportunites for inspectors consisting of formal education, correspondence school and in-service training.

B. Suggest educational program for all types of inspectors in which the inspector could, with experience, achieve certain levels of proficiency.

C. Suggest minimum qualifications for each of the various types and levels of inspectors.

D. Suggest model State certification program for inspectors.

E. Suggest a program to provide reciprocity of State certification of various types and levels of inspectors.

III. MANAGEMENT AND REGULATORY PROCEDURES

(Management and Regulatory Procedures Committee—William Dripps, Chairman)

A. Prepare documents for the Conference along with appropriate statistical, budgetary and legal supporting data, which will provide the States with appropriate organization and operation models for Code Administration.

(1) Organization—

(*a*) Provide sample organization models and staffing patterns for use by the States for State, county and municipal code enforcement bodies.

(*b*) Provide suggested uniform forms for use at the State, county and municipal level for permit applications, inspection reports (by class or type of structure), enforcement actions and record and statistical uses.

(2) Administrative Operations—

(*a*) Provide suggested remuneration and fee schedules, general budgetary information and suggested fiscal procedures. Provide sample records and data storage and retrieval systems, both manual and using ADP.

(*b*) Explore the use of computers in order to achieve administrative effectiveness and efficiency. Provide suggested programs for computer use for the following purposes: Building failures—structural, fire damage, electrical, mechanical; Technical library—product approvals, systems approvals, fire ratings.

(*c*) Promote the use of a single uniform system for computer management for computer management and operation to promote nationwide exchange of statistical information related to building problems, with the objective of eventual modification of codes to more perfectly provide for public safety and health.

(3) Technical Operations—

(*a*) Provide suggested procedures and sample checklist for plan review.

(*b*) Provide suggested procedures and sample inspection forms.

(*c*) Provide and maintain a library of pertinent legal opinion, case history and law on code enforcement—provide suggested outlines and procedures for prosecution of violators.

IV. INTERSTATE RECIPROCITY FOR INDUSTRIALIZED BUILDING

(Reciprocity Committee—Kern E. Church, Interim Chairman)

A. In cooperation with the S&E Committee, identify and encourage uniformity of recognized model codes and standards which can serve as a basis for interstate reciprocity for industrialized building and components.

B. Development and maintenance of operational rules and criteria for listing of "independent" organizations which are qualified to perform one or more of the following functions:

(1) evaluation prototypes—

(2) performance of the necessary tests required by the standard

(3) inspection and quality assurance service at the point of manufacture to provide certification with identifying labels of units that comply with the codes and standards used by the participating States.

C. Accreditation of such organizations on the behalf of NCSBCS.

D. Development and operation of a cooperative "Watch Dog" service to assure that these accredited organizations are performing properly.

E. Development and operation for NCSBCS, of a central registry of industrialized building units which have been certified and labeled under the above program.

F. In cooperation with other affected committees of NCSBCS, develop support among the States and throughout the building industry for these programs.

G. Recommends State legislation which will promote intrastate and interstate uniformity.

H. Provide for administrative appeals to States from disputed local interpretations of the uniform regulations, and for variances based on peculiar local conditions.

I. Provide technical and educational assistance to local inspection departments.

J. Make recommendations to other Committees for their consideration of items to promote intrastate and interstate uniformity.

K. Recommend revisions to the Constitution to accommodate the intrastate and interstate needs of States having a statewide building regulatory system.

L. Recommend special awards to States on special achievements for intrastate uniformity.

VI. INTERSTATE EXCHANGE OF INFORMATION

(Conference Officers and Executive Committee—Harry A. Stone, Chairman).

A. Conduct annual meetings of the Conference to provide:

(1) Opportunity for personal acquaintance and exchange of views with key code people from other States.

(2) Opportunity for personal acquaintance and exchange of views with key building industry people.

(3) Opportunity to contribute to development of interstate programs to assist individual States to reach goals of reasonable national uniformity.

(4) Reports and recommendations of the working committees and the Executive Committee.

B. Organize publications program to include the following: (1) Approvals and evaluations of interstate interest; (2) General newsletters.

VII. STAFF ASSISTANCE AND SECRETARIAT

(National Bureau of Standards—Conference Executive Secretary, Gene A. Rowland).

A. Organization and operation of administrative details of meetings.

B. Research and secretarial assistance for standing committees and other authorized NCSBCS activities.

C. Operation of Conference reference and publications system for the benefit of the States.

NATIONAL CONFERENCE OF STATES
ON BUILDING CODES AND STANDARDS,
July 16, 1973.

Mr. KERN E. CHURCH,
Chief Engineer,
North Carolina State Building Code,
Raleigh, N.C.

DEAR MR. CHURCH: At its meeting in Washington, D.C., on June 29th, the Executive Committee of NCSBCS took certain actions that will affect your duties as Chairman of the Conference's Legislative Committee in regard to Mobile Home legislation now being considered by the United States Congress.

The Executive Committee adopted the following resolutions:

"Mr. Kern E. Church, State Delegate from North Carolina, and Chairman of the Legislative Committee of NCSBCS, is requested to represent the Conference before appropriate bodies of the United States Congress which may be considering regulation of mobile homes and the mobile home industry. Mr. Church is specifically authorized to offer suggestions relating to proposed legislation such as the bills introduced by Senator Brock and Representative Frey in this Congress, providing that such proposals are consistent with the policy statements previously adopted by NCSBCS, and further provided that where time permits such proposals should be reviewed by the Executive Committee of the Conference."

I understand that you have been invited to appear before a subcommittee hearing on Senator Brock's bill on July 24th. I urge you to accept this invitation and to carry out vigorously, the intent of the above resolution.

Sincerely,

BERNARD E. CABELUS,
National Chairman.

"SEMHI POSITION STATEMENT ON STANDARDS"

1. SEMHI reaffirms its position for strict compliance with ANSI A119.1 "Standards for Mobile Homes", by all segments of the mobile home industry.

2. SEMHI supports rigid State Regulatory Agency enforcement of ANSI A119.1, either by the State Regulatory Agency or by State approved independent third party methods of certification and/or inspection service programs, as long

as the programs are monitored by the State Agency, and as determined by the individual states.

3. SEMHI supports State Regulatory Agency Methods which will allow compliance and provide certification in the structural area through either analytical calculations or by performance test evaluations witnessed or otherwise evaluated by the State Regulatory Agency or by State approved independent third party methods of certification and/or inspection service programs.

4. SEMHI strives for the adoption of uniform Rules, Regulations, and Procedures for the certification and inspection programs conducted by an arm of the State Regulatory Agency or by State approved independent third parties authorized by the Agency for that purpose *in order to develop necessary uniformity leading to reciprocity between all Southeastern member States.*

5. SEMHI recommends the following design certification programs:

(a) Qualified engineers from the State Regulatory Agency or independent parties authorized by the Agency for that purpose shall review and confirm that all plans, specifications and other information from the manufacturer meet all the requirements of ANSI A119.1, "Standard for Mobile Homes".

(b) Structural analysis by either Design Calculation or Performance Test Evaluation will be provided by the manufacturer and will be reviewed and/or witnessed by a qualified engineer on the staff of the State Regulatory Agency, or on the staff of independent parties authorized by the Agency, for proper engineering design of frames, floors, walls, roofs, and connections, for conformance to the structural design requirements of ANSI A119.1.

6. SEMHI recommends the following program for the inspection arms of the State Regulatory Agency or an independent third party authorized by the Agency for that purpose in order to establish uniformity leading to reciprocity between states:

(a) Normal inspection requirements shall provide that an inspector should inspect each mobile home in some phase of its production. Each unit need not be inspected in its entirety, but a complete inspection of one area of construction (structure, plumbing, heating or electricity) is required to be made on a rotating basis.

(b) An evaluation of the manufacturer's quality control and production methods will be continually made by a review of deviation reports prepared by the inspector and reviewed by his qualified supervising engineer.

(c) If the quality control systems of the manufacturer demonstrate the need for reduced or increased inspection, the qualified supervising engineer shall have the authority to vary the frequency of inspections to the extent that his best professional judgment allows.

(d) All inspectors must be qualified and knowledgeable of all aspects of compliance with ANSI A119.1 as revised from time to time and inspection procedures shall be standardized.

7. SEMHI will strive to establish proper representation of all Southeastern State Regulatory Agencies on the Reciprocity Committee of the National Conference of States on Building Codes and Standards (NCSBCS). SEMHI shall further strive to promote the regional concept for proper division of the Reciprocity Committee of NCSBCS, so that faster action can be taken by the committee to solve regional area conflicts of interest concerning total uniformity of State Acts, and Rules, Regulations, and Procedures directed at uniform State enforcement policies for the manufactured housing industries under their jurisdiction.

8. SEMHI will strive for proper delegate appointments by the Governor of each Southeastern State as representatives to the National Conference of States on Building Codes and Standards (NCSBCS). SEMHI will further strive for proper selection of a member to the Reciprocity Committee of NCSBCS, which should be the State Regulatory Official having the responsibility for the implementation and enforcement of the Mobile Home or Manufactured Housing Act. SEMHI shall also strive to establish an Advisory Member to the NCSBCS as spokesman to the conference representing the manufactured housing industry in all Southeastern States.

9. SEMHI recommends that the latest revised ANSI A119.1, "Standard for Mobile Homes", be implemented by all nine Southeastern State Regulatory Agencies at the same time, and recommends, further, that the time not extend beyond 120 days after concensus approval of the members of the Reciprocity

Committee of the National Conference of States on Building Codes and Standards.

Respectfully submitted.

WALLACE J. KAUN,
Standards Committee Chairman,
Southeastern Manufactured Housing Institute.

The following individuals are those persons responsible for the implementation of the A119.1 Standard to the SEMHI member States:

Alabama—Commissioner Insurance, John Bookout, Montgomery, Ala.

Florida—Dept. of Highway Safety, John D. Calvin, Director of Motor Vehicles, Tallahassee, Fla.

Georgia—Commissioner Insurance, John Caldwell, Atlanta, Ga.

Kentucky—Dept. of Transportation, Com. Hogge, Frankfort, Ky.

Mississippi—Commissioner Insurance, Miss Evelyn Grandy, Jackson, Miss.

N. Carolina—Commissioner Insurance, Edward Lanier, Raleigh, N.C.

S. Carolina—State Fire Marshal, Jesse Johnson, Columbia, S.C. reports directly to Legislature

Tennessee—Commissioner Insurance & Banking, Halbert Carter, Nashville, Tenn.

Virginia—State Corporation Comm., responsibility lies with 3 appointed judges, Junie L. Bradshaw, Ralph Catterall, Preston C. Shannon, Richmond, Va.

SUPPLEMENTARY PRESENTATION OF THE NORTH CAROLINA DEPARTMENT OF INSURANCE BY KERN E. CHURCH, DEPUTY COMMISSIONER OF INSURANCE, ENGINEERING AND BUILDING CODES DIVISION

Thank you for the opportunity to appear here to comment on proposed legislation relating to the safety of mobile homes. My presentation will describe the experiences of the State of North Carolina officials on the implementation of mobile home safety standards to protect the public which is the stated goal of this proposed federal act and also to relate our experiences and what we have learned.

I am Kern E. Church, Chief Engineer, Engineering and Building Codes Division, North Carolina Department of Insurance and I have been employed by this agency responsible for the administration of the state building codes for twenty-four years. I am a registered professional engineer. The Division staff's structural engineer has a masters degree in structural engineering and is also a registered professional engineer and has fifteen years experience. The staff mechanical engineer is a registered professional engineer and has over fifteen years experience and the staff electrical engineer is a registered professional engineer and has over twenty-five years experience. Other personnel on the staff have engineering degrees and/or qualifications as a state licensed general contractor, electrical contractor or plumbing and heating contractor.

North Carolina has had a statewide building code since 1936 and it is the duty of the Engineering Division to administer the state building, plumbing, heating and electrical codes in cooperation with local officials throughout the State. These duties include the review of plans and specifications and inspections of a wide variety of buildings for code compliance and serve as official code interpretations body for local officials and the design and construction professions throughout North Carolina.

NORTH CAROLINA IMPLEMENTATION OF SAFETY STANDARDS FOR MOBILE HOMES

I cite these experiences in North Carolina not because these experiences depict what should be done but to indicate the many faceted sides of the problems which a number of other states have faced and many are still facing. These experiences might also assist you as members of this Committee in your better understanding of these problems because you, as members of Congress, now are facing some of these same problems which state legislators faced and federal agencies would face some of these problems when and if they begin to implement or require the states to implement the standards to protect the public health and safety.

These comments are not intended to cast any reflection on the intent of the Mobile Home Manufacturers' Association, Trailer Coach Association or Southeastern Manufactured Housing Institute or any of their members but it has been very apparent that an honest difference of opinion has existed between the staffs

of these organizations and the North Carolina officials on the best methods of providing protection to the public health and safety. It also must be stated that many individual members of each of these organizations have supported effective enforcement of the standard in a vigorous manner once all the requirements have been spelled out for them and it may be that many members have feared and many others still fear the unknown.

Prior to the 1969 North Carolina State Law, mobile homes were either banned from local communities because they did not meet the state building code requirements or they were ignored with no inspections required except in two or three counties. These counties inspected only the electrical systems and considerable re-wiring was required on every unit which was expensive to the manufacturer. Some time prior to the 1969 General Assembly, the Southeastern Manufactured Housing Institute representing manufacturers in the nine southeastern states and the North Carolina Manufactured Housing Institute requested the Commissioner of Insurance and his Engineering and Building Codes Division to endorse a proposed bill which they said they sponsored had already been passed in Georgia and Florida which would require the Commissioner to issue state labels for all mobile homes sold in the state after July 1, 1970 without any additional staff. Since this would mean that the state staff would have to evaluate the plans and specifications and make plant inspections in over 125 plants in 20 states, if the state label meant that the public health and safety would be protected, the Commissioner, who is a statewide elected official, took the position that he saw the need for mobile homes to be regulated but would not endorse any bill which would not provide for the units which would be properly evaluated and inspected before the state would authorize labels to be attached. The bill was introduced anyway and the Chairman, Vice-Chairman and over half of the members of the Senate Committee the bill was referred to signed the bill as co-sponsors. In my opinion, these state senators who signed the bill honestly believed the provisions of the bill would protect the public. However, it was explained to them that if the bill was passed, that we would have to resort to the same enforcement methods as the other states which had passed the bill by asking the manufacturers to self certify that they complied and only hope that we could at some future time actually make inspections. It is also my opinion that these senators assumed the manufacturers were sincere in their desire to be regulated and actually wanted to comply with the standard they wished the state to adopt because they supported the Committee's substitute which we recommended. The Committee's substitute proposed that the state would approve and monitor private, independent organizations such as Underwriters' Laboratories to evaluate the plans and specifications, make factory inspections and issue labels on units which did comply and the small state staff would monitor the work of those state approved organizations instead of trying to monitor the work of all the manufacturers.

Underwriters' Laboratories was the only organization which we had contact with who expressed an interest in performing this service and we know that the state and local building officials in North Carolina had depended on the UL label on electrical equipment, heating equipment and building materials to comply with safety requirements without dismantling such equipment for inspection for over fifty years. We also know that state and local officials responsible for public health and safety throughout the United States have accepted this label of compliance on these same items. It was also felt that if the need was shown for this kind of service, other competent independent organizations would also satisfy this need and there are now other similar organizations in this business.

This label of compliance preempted local inspection of units throughout North Carolina but many manufacturers took their chances that there would be no local inspections in most of their market area. The 1971 Legislature provided that all units manufactured after September 1, 1971 and sold in North Carolina would have to bear the label of compliance of an independent, competent and trustworthy organization approved by the Building Code Council and monitored by the state staff.

The assumptions made by the state senators that the North Carolina manufacturers were sincere in wanting to comply with the adopted standards was verified when the North Carolina Manufactured Housing Institute co-sponsored the 1971 legislation to require all units to be so labeled.

The Building Code Council has adopted procedures for "approval of competent, independent agencies" and "methods and procedures" required of approved agencies for the investigation of mobile homes pursuant to the state act.

It has been our experience that a number of manufacturers do not have knowledge of the code requirements and some try to avoid compliance even when they do know the requirements in the same manner the general population is composed of persons who violate laws through ignorance and some do on purpose. However, once all the manufacturers are made knowledgeable of the requirements and realize that all their competitors will be required to comply, then their resistance turns to support of effective enforcement as evidenced by support of the manufacturers in North Carolina of the North Carolina inspection programs.

The key to providing for effective uniform enforcement by a state agency or state approved agencies is having clearly defined procedures for the independence and qualifications of the personnel who do the work and clearly defined procedures for the personnel to perform this work with a qualified state staff to monitor the work of state approved agencies.

The North Carolina approved agencies are required to comply with the following procedures and each step of these procedures are monitored on a random basis by the state staff to be assured they are followed by the agency with a frequency directly related to the results of the monitoring. A manufacturer applies to one of the North Carolina approved agencies and the agency is required to follow these steps:

(1) Engineers competent to evaluate the structural, plumbing, heating and electrical features of the Mobile Home Standard evaluate the plans and specifications of the manufacturer and approve such plans and specifications when they are in compliance with the Code.

(2) Competent engineers of the approved agency make inspections of the plant production prototypes to determine if the prototypes are actually in compliance with the approved plans and a report is written on what changes are needed in the production prototypes in order for the produced units to bear the label of compliance.

(3) After all the deviations are resolved and all the alternate plans, methods of construction and other variations the manufacturer wishes to be included in various models of labeled units, agency engineers who are qualified in the structural, plumbing, heating and electrical requirements of the Standard then prepare and sign a "certification report" which includes the plans, specifications and details of how the manufacturer is complying with the Code.

(4) The agency inspector then takes the certification report and makes either a structural, plumbing, heating or electrical inspection on each unit produced thereafter and authorizes the label to be affixed to the units which comply.

(5) The agency keeps the State informed on the status of each manufacturing plant and the state staff monitors each of the above processes on the above agencies at random after the State is confident that the agency is performing satisfactorily.

Although this process does not produce perfect units, the system is accepted by the state and local officials having responsibility for public health and safety of their citizens and is also acceptable to the manufacturers because they all have to comply with the same rules. (See letters from the Council of Code Officials, North Carolina League of Municipalities and the N.C. Manufactured Housing Institute attached.)

There has been considerable pressure by the staff of the Southeastern Manufactured Housing Institute for the state to accept labels of one or more of the southeastern states even though such states do not have state staffs meeting the North Carolina requirements for "approved agencies" and are not following steps required by North Carolina. Although any state may apply for formal acceptance, no other state has made a submission in accordance with the Procedural Rules to qualify and follow the methods required of approved agencies.

Since the North Carolina approved agencies are required to file reports with the State, we do have copies of reports on deviations of manufacturing plants in a number of states where the state has authorized its label to be affixed thereon and our State staff in monitoring our approved agencies have verified that units are manufactured in those states where MHMA-TCA self certification labels and as many as five state self certification labels are affixed with the size of the structural members of the floor, walls and roofs were about one-half of what the Standard required and the spacing of structural members was twice as far as allowed with sub-standard wiring, plumbing and heating systems. It is my understanding that the manufacturer charges $150–$250 less for these units than they do for the North Carolina approved labeled units even though they are certified and labeled to comply with the same standard.

SELF CERTIFICATION BY THE MANUFACTURER DOES NOT PROVIDE ASSURANCE THAT UNITS COMPLY WITH THE STANDARD

Senate Bill 1348 would either assume the federal administrator would see the need for and convince Congress to appropriate sufficient funds to hire a large army of federal engineers and inspectors to enforce the standard (or sufficient funds to assure that the states actually uniformily enforce the standard) to protect the public health and safety or he would depend on self certification by the manufacturer to the federal agency (or a state agency under a state approved plan) as the method of enforcement with no criteria other than self certification for approval of state plans.

Why single out the mobile home industry for this method of enforcement? Governmental jurisdictions have seen the need for evaluation of plans and specifications and inspections during construction to assure code compliance from the early beginnings of the nation and such systems are now in existence in most cities of any size throughout the United States to protect their citizens. If all manufacturers and contractors were fully knowledgeable and even under highly competitive conditions could maintain the highest integrity, S–1348 could be expanded to include all buildings built by home builders and contractors. I believe that cities throughout the United States would vigorously resist this method of enforcement for builders and contractors and I also do not believe that all the cities in the United States can be wrong in requiring local inspection programs for local builders and contractors. The states experienced in inspection programs for mobile homes and locally built buildings do not believe in "self certification" for mobile home manufacturers, home builders or any other type of building contractor.

Mobile home manufacturers have for the most part depended on their market in areas where there was no inspection system until the last few years. The members of the Mobile Home Manufacturers' Association and the Trailer Coach Association have had a self certification program of their units as being in compliance with the national standard for over eight years and, in my opinion, their record does not indicate that code compliance and protection of the public health and safety can be assured in this manner.

Senate Bill 1348 is apparently patterned after the Federal Motor Vehicles Act which is applicable to a small number of manufacturers all of which have sophisticated design engineers. There are an extremely large number of mobile home manufacturers located throughout the United States and it is very rare indeed for a mobile home manufacturer to avail himself of professional engineering services for the design or supervision of in-plant construction of mobile home units. It is my opinion it would be uneconomical for small manufacturers to employ such personnel full time and according to our experiences, those full time personnel working for large manufacturers in this capacity may be biased in their evaluations. MHMA had a staff of two inspectors in 1969 to inspect all MHMA members' plants. We understand they now have twelve inspectors and according to our experience, they are either not knowledgeable of code requirements or they and the manufacturers pay very little attention to them. It is my own personal opinion that all manufacturers should have access to engineers to do their design but that the approval of plans and specifications and factory inspections to assure compliance to protect the public health and safety must be done by competent personnel who are completely independent of the manufacturers which is the same method used by local governments in the enforcement of building codes generally.

We have found that many plants outside the State manufacture units with the North Carolina approved label one or two days a week or month and the remainder of the time, units are manufactured with the MHMA and TCA self certification label and one or more self certification state labels attached with sub-standard construction to have considerable influence over the construction of units which are labeled under the North Carolina approved label. In other words, most of the problems we have with our approved agencies are in such plants where the mnaufacturer's personnel are used to lower standards and we think our approved agencies' inspection frequency will have to be increased in those states where inadequate inspection programs allow manufacturers to self certify with the above referenced deficiencies.

We made a section by section comment on H.R. 14176 which is identical to S. 3604 introduced in the last session of Congress by Senator Brock. Copy of these comments have been sent to each member of the Committee and all the comments applying to H.R. 14716 except the ones applicable to motor homes and travel trailers still apply to S. 1348. For those who do not have a copy of these comments, I submit extra copies to you at this time.

These comments are intended to be helpful in understanding the complexity of problems faced by state officials when they are suddenly given the responsibility to carry out a mandate by their legislature when they do not have the personnel to implement same, and is not intended as any criticism of any state official because we know that all are doing their best to protect the public health and safety.

It is recognized by the leadership of the National Conference of States on Building Codes and Standards that the various state programs on mobile homes are in various stages of development and many statistics have been cited as to the fact that the various state programs are not uniform and there is difficulty in obtainng reciprocal agreements on such programs.

Having served as Chairman of the Conference and Chairman of the Reciprocity Committee, it has been my observation that the following items have contributed significantly towards non-uniformity of state programs:

(1) The A119.1 Standard is co-sponsored by the Mobile Home Manufacturers' Association, Trailer Coach Association and the National Fire Protection Association where the National Fire Protection Association assumes responsibility only for those parts of the Standard which pertain to fire and that excludes the structural and plumbing parts of the Standard. The sponsors of the Standard have been reluctant to provide a balanced representation of state and local officials and design professions independent of the mobile home industry who are competent in the structural part of the Standard. In fact, I was taken to task on a nationwide basis by MHMA and TCA when I questioned this point several years ago.

(2) Since most of the state staffs which have been set up to enforce the Mobile Home Standard A119.1 are not staffed with qualified structural engineers, in my opinion, it is impossible for them to enforce this part of the Standard which if enforced, increases the cost of units anywhere from $50 per unit up to $600 per unit depending on how far the manufacturer is from complying with the Standard. At the Annual Meeting in Boise in May, 1972, NCSBCS passed a resolution condemning the structural part of the A119.1 Standard for the typical state inspectors to enforce, since it would take a structural engineer to determine compliance the way the standard is now written.

(3) MHMA, TCA and SEMHI have been the prime sponsors of state legislation for the adoption of state standards for mobile homes but apparently have not been concerned with the states having competent and adequate staffs to enforce the standard. In my opinion, the states would have more uniformity if MHMA, TCA and SEMHI had supported competent and adequate state staffs to enforce the standards with the same vigor they supported adoption of the standards. Several states have not adopted the structural part of the standard and a relatively small number of states have structural engineers on their staffs to interpret the structural part of the standard. A number of states are not now equipped to implement any part of the standard and a number of states, (because of lack of adequate personnel and doing the best they can) have had to resort to self certification by the manufacturer with an inspector, who is not equipped with approved plans and engineered check lists and not knowledgeable without them, inspecting plants once every three months or so and in a number of states, a lot less. MHMA, TCA and SEMHI have on many occasions resisted legislative and administrative procedures on the part of state officials who wished to utilize competent, independent, third party inspection systems so the state officials could be more effective by monitoring the third parties in lieu of monitoring all the plants with their small staff.

(4) There is no criteria which has been used for reciprocal agreements on state inspection programs except that the states agree their programs are equal without any requirements for qualifications and adequacy of staff or uniform and adequate methods of evaluations of plans and plant inspections. Either legislation or administrative rulings in approximately fifteen states have provided only for state inspection for monitoring of all manufacturing plants without using independent third parties monitored by the state and under "state inspection system", there is one reciprocal agreement between the State of Florida and the State of Georgia which has been in effect for about three years. According to Congressman Frey's statement, the State of Florida had three motor vehicle inspectors to answer complaints for all automobiles, motor homes, travel trailers and 38,000 mobile homes until July, 1972 and now have six motor vehicle inspectors to provide protection to the citizens of Florida who purchased vehicles

and mobile homes. Some of these states have not been able to provide any personnel to inspect and some states only inspect for the electrical and plumbing. However, California, by far exceeds the number of state inspectors with approximately 36 inspectors to inspect mobile home plants in California.

(5) All of the states which have appro ed third parties do not have procedures for qualifying approved agencies nor procedures for approved agencies to follow and some of these states do not have an adequate staff to monitor adequately all state approved independent third party inspection agencies and consequently, all of them approved in one state are not necessarily approved in other states. However, approximately 15 states have commonly approved at least one or more independent third party inspection agencies and under this system, units manufactured in 28 states which are labeled by one or more of these commonly approved agencies are acceptable in all 15 of these states.

We understand that the Executive Board of MHMA and SEMHI have during the past year passed resolutions supporting effective enforcement of the Mobile Home Standard by either competent and adequate state staffs or by competent; independent approved state agencies monitored by the states. However, there has not been enough time to see the effects of vigorous support given to this policy by the staffs which was given by their staffs on adoption of the standards by the states.

In my opinion, these problems would not be immediately rectified by any type of federal legislation and if the federal legislation depended on self certification as the main element determining compliance, the progress which has been made to protect the public in a large number of states would be set back immeasurably.

Since these organizations have endorsed the policy of effective enforcement as stated above, it appears there is an honest difference of opinion as to methods of enforcement incorporated in S–1348 because we do not believe that S–1348 actually incorporates the methods of enforcement endorsed by the Executive Boards of MHMA and SEMHI.

I would urge an unfavorable report on S–1348 as is now written because I do not believe it accomplishes the stated intent. If S–1348 is to be utilized as a federal bill, I would be glad to work with your committee and NCSBCS and other organizations on specific amendments which would clarify S–1348 to carry out its intent.

NORTH CAROLINA MANUFACTURED HOUSING INSTITUTE,
Raleigh, N.C., July 18, 1973.

Mr. KERN CHURCH,
Chief Engineer, Department of Insurance,
Raleigh, N.C.

DEAR KERN: At the June 28 meeting of our Board, S–1348 was discussed. It was their unanimous decision to neither oppose nor support this bill at this time.

I was instructed to inform you of their decision and also to relate the Board's complete satisfaction with the present method of enforcement of ANSI A119.1 in North Carolina. It has been of tremendous benefit to our industry.

Sincerely yours,

BECKY L. GRIFFIN,
Executive Director.

NORTH CAROLINA LEAGUE OF MUNICIPALITIES,
Raleigh, N.C., July 16, 1973.

Senator JOHN SPARKMAN,
Chairman, Subcommittee on Housing, Committee on Housing, Banking, and Urban Affairs, New Senate Office Building, Washington, D.C.

DEAR SENATOR SPARKMAN: It is my understanding that your Subcommittee on Housing of the Senate Committee on Housing, Banking, and Urban Affairs will consider S. 1348 during the week of July 23.

S. 1348 would authorize mobile home manufacturers throughout the Country to perform an in-house inspection and certification of their products that would be required to be accepted for use in all fifty States or permit each State to authorize a self-inspection program. This proposal is contrary to the best interests of the public health and safety and contrary to the established practice in North Carolina.

It is the opinion of this organization representing 395 North Carolina cities and towns that the inspection of mobile home units for compliance with accepted construction and other standards should be left to the individual states and the local governments therein that have adopted mobile home standards in substantial compliance with national standards. The States and their local governments have the ultimate responsibility for the protection of health and safety of their citizens and only through an adequate state and local inspection program can the health and safety of its citizens be protected against substandard mobile home construction.

The State of North Carolina and its cities and towns have developed an excellent mobile home inspection and certification program which has been accepted by the mobile home industry. If enacted, S. 1348 would reverse the progress that has been made in North Carolina to protect its citizens from the substandard construction of mobile homes.

This organization, therefore, respectfully requests that you and your committee consider giving this bill an unfavorable report or amending this legislation to permit the State of North Carolina to continue its present practices for the certification and inspection of mobile home units.

Very truly yours,

S. LEIGH WILSON,
Executive Director.

NORTH CAROLINA COUNCIL OF CODE OFFICIALS,
July 17, 1973.

Mr. KERN CHURCH, P. E.,
Fire Marshal and Chief Engineer, State Insurance Department,
Raleigh, N.C.

DEAR MR. CHURCH: This is to confirm the position of the North Carolina Council of Code Officials on the subject of third party inspection of mobile homes and manufactured housing. As you know, the Council represents all facets (Building, Electrical, Plumbing, and Mechanical) of inspection organizations in North Carolina comprising some 400 inspectors.

It is our understanding that a Federal bill is now pending in Congress and if enacted would nullify third party certification of mobile homes and manufactured housing as required by the State of North Carolina as well as some other states.

As you know, the Council of Code Officials has endorsed third party certification to pre-empt local inspections of mobile homes and manufactured housing since the inception of the program several years ago. The State's approach to legislation of mobile homes and manufactured housing, through the use of independent testing agencies making inspections at the factory, has been a breakthrough in preserving the public interest in health and safety while permitting the application of mass production techniques to housing. The program has been a great success, and it seems that everyone has benefited by it—especially the buyer.

Prior to our third party certification program here in North Carolina, field investigations by our people revealed a large percentage of mobile homes to be far below minimum safety standards. Defective wiring, heating systems, plumbing and bracing of the units are among some of the conditions found. (These units had been certified by the manufacturer and placed on the dealer's retail lot to be sold to the general public.)

Any effort to bring about Federal legislation to pre-empt our third party certification program should be vigorously resisted, especially where the alternative would amount to self-certification by the manufacturer—a system that experience has proven to be meaningless.

Sincerely,

W. H. JAMISON,
President of Code Officials.

The CHAIRMAN. We are glad to receive them from you.

Mr. Bono.

Mr. BONO. Thank you, sir. As the assistant chief engineer of Underwriters Laboratories, one of my principal duties at the present time is to coordinate the work of three engineering departments that have responsibility for the investigation of mobile homes.

Underwriters Laboratories' association with mobile homes is as an independent third party, accredited by various States, as you have heard Mr. Church describe, to provide engineering and inspection services for mobile homes intended for installation in those States.

In my written testimony and through discussion from Mr. Church, I believe you have an idea of the function of a third party. I think, suffice it to say, that we believe that the function of a third party is first to provide comprehensive initial evaluation of mobile homes, second, frequent inspection of mobile homes to see that what comes off the production line continues to meet the standard.

In this process, which is a fairly new process with Underwriters Laboratories, we listed our first mobile home in the summer of 1970. Since that time the laboratories has evaluated and inspected, provided inspection service for 102 manufacturers of mobile homes.

We have inspectors frequently visiting 226 mobile home plants in 28 States. To give you an idea of the activity that is involved, in 1972 our local inspectors made over 7,000 visits to mobile home plants. They spent in excess of 30,000 hours of inspection in witnessing the production and inspecting the equipment, appliances, and the construction of the mobile homes.

So our recommendations come from the experiences which we have had during the last approximately 3 years in the evaluation and inspection of mobile homes.

Like other forms of building construction, mobile homes need to be regulated. Where a State program employing qualified engineers and inspectors has been initiated, we have observed a substantial upgrading in mobile homes. This is not an intuitive or a casual observation, we have seen it time after time.

Our written testimony details some of the more common deviations that we found in our engineering investigations. Suffice it to say that even though some of the homes carried a label which we understand was intended as a manufacturer's representation of compliance, what we found was that the manufacturers were either not knowledgeable, did not understand or they were confused about the significance of a certification process.

Section 114 of the act does not include any provisions for third party audit for certification of conformity of mobile homes with the applicable standards.

In a sense this is like abandoning the traditional duties of electrical inspectors, plumbing inspectors, and building inspectors in site-built housing.

The initial evaluation which I mentioned in my written testimony is such a valuable part of any investigation of the mobile home that it is unfortunate in our opinion that the act does not take this into account.

The only thing, as we understand it, that the act provides is after-the-fact recourse in the form of civil penalties or injunctions in the placement of obligations on manufacturers and distributors. But this is not a suitable substitute for determining that the product complies with the requirements before it leaves the factory.

Unless independent audits are incorporated in the program there is a likelihood that the act will mean a reduction in the control and

regulation being attained in those States that have a viable working program.

So we strongly recommend that the act require, as an initial determination of compliance, at least a plant review, an examination of production or prototype units in the factory, and the conduct of all applicable tests that are described in the standard.

Section 112 of the act authorizes the Secretary or his representative to inspect the manufacturing facilities and production. The States have recognized the need for specific rules and regulations for implementing the requirements for this type of inspection.

We strongly urge that the act be amended to empower the Secretary to use practical rules and regulations developed by consensus groups and regulatory-oriented people relating to evaluation and inspection of mobile homes.

Our written testimony references several documents which will be helpful in this respect.

Section 120 of the act allows for a State plan of enforcement, but does not have specific criteria for qualifying that plan. Approximately 35 States have some form of legislation dealing with mobile homes, but the implementation, as you have heard previously, differs widely.

We recommend that the criteria for qualifying a State plan be specifically and clearly delineated.

Reference to criteria developed by the National Conference of States on Building Codes and Standards, and which have been effectively applied in States, in existing programs, should be helpful.

Statistics have been published in the Federal Register and other places which indicate the hazards of mobile homes. The record was established on mobile homes which did not comply with the standard. The present standards for mobile homes, ANSI A 119.1, cannot be universally condemned as inadequate by reason of past statistics, although certainly improvement in that standard is possible.

The chief need, and the one to which we believe Federal legislation should be addressed, is not so much a different standard, but rather a more effective mechanism for assuring compliance.

Let me summarize. First, we agree that regulation of mobile homes is needed. Underwriters Laboratories, as an independent agency whose sole objective is public safety, supports the intent of the act.

Second, a number of States have good strong programs. The act should recognize and support those programs and should not replace them with procedures that are less comprehensive and less effective.

Third, the act can hasten the more uniform regulatory trends by encouraging a State to adopt legislation regulating mobile homes. There is model legislation available, model rules for implementing that legislation, even model documentation that has been worked out by representatives of the Federal Government, State agencies, building code groups and others.

There is a nationally recognized standard, ANSI A 119.1, which was produced by a consensus group. It is being improved on every year.

The important objective of this act should not be a new standard, but rather a mechanism for assuring compliance.

We have seen what effective State programs can do. If the language of this act is revised, similar accomplishments can be made nationwide.

We would be pleased to have the opportunity to work with the committee in drafting language which we believe would accomplish the intent of the act.

Thank you.

[The prepared statement of Mr. Bono follows:]

STATEMENT OF JACK BONO, CHIEF ENGINEER, FIRE PROTECTION, UNDERWRITERS' LABORATORIES, INC.

Mr. CHAIRMAN and MEMBERS of the SUBCOMMITTEE: I am Jack Bono, Assistant Chief Engineer, Fire Protection, and I have been employed by Underwriters' Laboratories, Inc. for 26 years. I am a professional engineer with registration in six States. One of my duties is to coordinate the work of three engineering departments at Underwriters' Laboratories which are responsible for specific phases of the engineering investigations conducted on mobile homes.

We at Underwriters' Laboratories, Inc. are pleased at the opportunity to comment on this proposed legislation relating to the safety of mobile homes. The goal of this presentation is to describe the association and experience which Underwriters' Laboratories has had with these products and to relate what we have learned to various provisions of the proposed National Mobile Home Safety Standards Act of 1973.

THE UNDERWRITERS' LABORATORIES, INC. ORGANIZATION

The evaluation of mobile homes is in keeping with the Laboratories' role in the product safety field as an independent not-for-profit corporation organized under the laws of the State of Delaware. The Laboratories is a membership corporation without stock and its membership is drawn from persons in the following categories: Governmental body or agency, public safety body or agency, consumer interest, safety expert, standardization expert, education, insurance industry, public utility and officer of the corporation. The present membership comprises 138 person from these categories, all having significant interest in safety, but none of whom is a manufacturer or vendor of products that could be submitted to the Laboratories for recognition. The Laboratories is managed by a Board of Trustees of 15 public spirited persons drawn from the same categories as the membership.

Today, Underwriters' Laboratories operates testing laboratories in Melville, New York; Santa Clara, California; Tampa, Florida; and Chicago and Northbrook, Illinois. Plant and equipment are valued at approximately $17,000,000 dollars. Of the approximately 2100 persons on the staff, 765 are involved in the engineering work associated with evaluation of new and modified products. Of these, 426 are degree-holding engineers. Approximately 675 persons are involved in our factory follow-up services to see that products reaching the public conform to U.L.'s requirements for safety, including over 500 inspectors strategically located throughout the United States and in 32 foreign countries.

Today, the products which industry has voluntarily submitted and which we found to meet our requirements for safety comprise ten published lists covering approximately 5000 different products produced by over 13,000 different manufacturers. As evidence of compliance with the Laboratories' requirements, manufacturers last year attached almost two billion U.L. labels to products produced under our label service form of follow-up inspection service. In addition, the U.L. Listing Mark, applied under a companion form of factory follow-up service appeared on millions of household appliances. The background of experience in conducting investigating of products and in establishing factory follow-up inspection service has been applied in our program for mobile homes.

THIRD PARTY EVALUATION AND INSPECTION OF MOBILE HOMES

Until recently, regulatory authorities were not requiring independent evaluation and inspection of mobile homes. What inspection was conducted was fragmented and local and took place after the home had been completed, when many items were not open to inspection.

In recognition of the fact that mobile homes received little or no regulation, the General Assembly of the State of North Carolina in 1969 enacted a law to require all mobile homes manufactured, sold or offered for sale in that State to be manufactured in accordance with the American National Standard For Mobile

Homes, ANSI A119.1. The 1969 Act also preempted local inspection of mobile homes provided they were evaluated, tested and inspected by Underwriters' Laboratories or other qualified agency approved by the North Carolina State Building Code Council. Some manufacturers chose to submit their mobile homes to Underwriters' Laboratories or other approved agencies; others chose to take their chances on local inspection.

The 1971 North Carolina General Assembly rewrote the 1969 Act and made it mandatory that all mobile homes manufactured to be sold in North Carolina after September 1, 1971, must have the "label of compliance" of an independent, competent, solvent and trustworthy organization approved and licensed by the State Building Code Council.[1]

Since enactment of the North Carolina law in 1969, other States have adopted similar laws and procedures, utilizing the services of independent third parties or a combination of independent third party services and in-State evaluation and inspection, including the following: Alaska, Arizona, Connecticut, Indiana, Iowa, Kansas, Maryland, Minnesota, Nevada, New Jersey, Pennsylvania, South Carolina, North Dakota, Tennessee, and Virginia.

Other States have established programs requiring evaluation and/or inspection by a State agency. Included are: Alabama, California, Colorado, Florida, Georgia, Idaho, Michigan, Mississippi, Montana, Nebraska, New Mexico, Oregon, Texas, Utah, and Washington.

Because of the strong trend in the direction of State laws to regulate mobile homes, there is a good likelihood that most, if not all States will soon have implemented programs utilizing the services of independent third parties or State agencies to evaluate and inspect mobile homes.

UNDERWRITERS' LABORATORIES, INC. PROCESS FOR INVESTIGATION AND INSPECTION OF MOBILE HOMES

Since our comments on the National Mobile Home Safety Standards Act of 1973 reflect, in part, our experience in investigating this product and maintaining follow-up inspection at mobile home factories, it may be helpful to review the procedures used to carry out our responsibility as an independent third party.

The capabilities of Underwriters' Laboratories' engineering and inspection staff were particularly adaptable to the requirements of a mobile home program. One of the important elements in the safety of mobile homes is the use of proper equipment and materials and their installation in accordance with appropriate codes and standards. Electrical wiring, switches, lighting fixtures, circuit breakers and other electrical products have been investigated and listed by U.L. for many years. Day in and day out work with these products and active participation in the development and use of Standards for these products, as well as the National Electrical Code governing their installation, enables U.L. engineers to bring to bear a wealth of experience in judging the electrical features in mobile homes.

Similarly, the testing of heating appliances and vents, air conditioners, clothes dryers and other factory installed equipment provided a familiarity with their intended use which permitted ready assessment of whether the appliances were correctly installed in mobile homes, with required clearances, circuitry, combustion air availability, etc.

The Standard For Mobile Homes limits the flame spread of interior finishes such as ceiling tile and wall paneling. The Laboratories' test equipment for flame spread determinations is being used by the Fire Protection Department at a rate of 2500 tests annually.

In addition to the approximately 35 electrical, mechanical, civil and structural engineers specifically involved in the investigations of mobile homes and other manufactured buildings and assemblies, ready access to others on the staff provides a source of expertise on unique engineering problems and interpretations.

The primary objective of an investigation is to determine whether the mobile home complies with the edition of the ANSI Standard For Mobile Homes adopted by the State. Achieving this objective requires the utilization of planned procedures implemented by qualified engineers.

The first step in the process is to obtain from the manufacturer construction drawings, wiring diagrams, plumbing layouts, and specifications describ-

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[1] Foreword—State of North Carolina Regulations for Mobile Homes, 1971 Edition.

ing the product. These are analyzed by engineers with academic qualification and professional experience relating to the discipline(s) involved. For example, the electrical features of the mobile home are examined by graduate electrical engineers familiar with the requirements of the National Electrical Code and the applicable Standards. Similarly, qualified engineers conduct the analysis for structural, heating, air conditioning and plumbing features.

Subsequently, a team of two or three engineers representing different disciplines visits the factor of the manufacturer for the purpose of (1) determining that the actual construction is in accordance with submitted drawings and specifications, (2) determining that the many details of construction which are not shown on illustrations or listed in specifications are in compliance with the Standard, and (3) conducting required tests. These tests include: Air duct leakage and sizing tests; Leakage test of potable water pipe; Leakage test of fuel supply system; Structural test of roof trusses; Spot loading tests of floors; Leakage and retarded flow determinations of plumbing fixtures; Dielectric strength tests on the electrical system of the home: Operational check of electrical devices: Electrical continuity tests of system ground; and Polarity check of electrical system.

The factory visit normally requires two days. During that time, the engineers examine approximately 1500 items of construction, equipment and workmanship, using a check list in excess of 90 pages, covering structural, heating, electrical and plumbing items. A complete check list accompanies this presentation and will be handed to the Committee.

Following the examination and tests, our engineers meet with the manufacturer's representative to provide him with a list of items found not to comply with the Standard. This list, together with other supportive data and information, is conveyed to the manufacturer by a subsequent written progress report.

The evaluation process continues with consideration and repeat testing, where required, of changes made to correct previously recorded deficiencies, until all features are in conformance with the Standard. At that time, a formal comprehensive report of the investigation is issued.

This completes the investigation and an inspection manual is then prepared. The manual details the acceptable construction and equipment specifications, the required production tests and includes instructions for guidance of the manufacturer and the U.L. inspector local to the factory. A copy is provided to the manufacturer and the U.L. inspector. Unannounced and frequent visits are conducted by the local inspector to ascertain that the production is in accordance with the detailed inspection manual. Labels under the control of the U.L. inspector are issued to the manufacturer as needed. Each label is serially numbered so that the inspector can correlate the number of inspection visits with label usage.

The first mobile home listed by U.L. under this program was in 1970. As of June, 1973, U.L. had evaluated and Listed mobile homes for 102 manufacturers and had instituted inspection service in 226 plants in 29 States. In 1972, the number of mobile homes labeled by U.L. was 108,105. Our local inspectors made 7,247 visits to plants and spent 30,398 hours in follow-up inspections. In excess 100 U.L. inspectors were involved in this activity.

Even though U.L. is the most active independent agency in the mobile home area, there are other independent agencies providing various forms of these services.

SUPPLEMENTARY ACTIVITIES

Participation in this activity has required that U.L. engineers meet periodically with State agencies to report on the progress of the program. Some States, through inspectors in the employ of the agency responsible for administering the law, conduct monitoring programs on the third party agency. This monitoring consists of visits to factories where the third party inspection program is in effect. In this way, the effectiveness of the program can be assessed by the States.

In addition, various States have required monthly or quarterly reports of the inspections made, U.L. labels and/or State insignia released, variations recorded and other information.

RECOMMENDATIONS AND COMMENTS ON THE NATIONAL MOBILE HOME SAFETY STANDARDS ACT OF 1973

From this background of experience in examining mobile homes in over 250 different factories, and inspection experience in over 200 of these factories, from our assessment of the elements required to provide regulation of these products

and from our analysis of the provisions of the Act, we offer the following observations and recommendations:

Like other forms of building construction, mobile homes need to be regulated, and where a State program employing qualified engineers and inspectors has been initiated, a substantial and observable upgrading in safety has been achieved.

In a review of the first twenty engineering investigations of mobile homes conducted by Underwriters' Laboratories in conjunction with assigned duties under a State mobile home program, it was found that:

1. 90% of all roof trusses tested failed to withstand the specified test load in the ANSI A119.1 Standard For Mobile Homes. Many of the trusses failed under the design load, even though the Standard requires that roof trusses support 1.75 times the design load.
2. Fifteen mobile homes did not have the heating appliances installed in accordance with the recommendations for these devices.
3. The gas piping was not properly secured or supported in twelve mobile homes.
4. In only three of the twenty mobile homes were all required production tests being conducted.
5. The duct ssytem for heating did not pass the sizing or leakage test in fifteen of the mobile homes.
6. The drain piping was not properly sloped or supported in fourteen mobile homes.
7. Improper clearances from adjacent combustible surfaces were observed around cooking equipment in twelve of the mobile homes.
8. In eleven mobile homes, the washer standpipe was not terminated properly above the machine flood level or it was not accessible.
9. In ten mobile homes, the floor around the water closet was not made impervious to moisture.
10. An average of twenty-two electrial violations were recorded in each home.

In a sampling of another twenty-three mobile homes, for manufacturing plants in geographical areas being subjected to independent third party evaluation for the first time, the following deviations from electrical requirements were noted at least 50% of the time:

1. Improper electrical bonding of the duct and gas piping.
2. Improper installation of air-conditioning system.
3. Improper support of non-metallic cable.
4. Wrong outdoor fixture.
5. Improper load, branch circuit and overcurrent protection calculations.
6. Unprotected cable through studs.
7. Improper bonding of aluminum skin.
8. Improper size of conduit stub for permanent wiring.

For a manufacturer who is making his first submittal to U.L., it has been almost certain that structural deficiencies will be observed in review of drawings or during the factory visit. Either the design of floor, wall, roof or window framing will be inadequate. It was not unusual to conclude the first phases of our engineering investigation with a report of criticisms, one or two dozen pages in length.

Some of these mobile homes, despite gross violations of fundamental requirements, carried a label which we understand was intended as the manufacturer's representation of compliance with the ANSI A119.1 Standard For Mobile Homes. What we found was that the manufacturer was unknowledgeable or confused about what he was certifying to, or if he knew, did not attach due significance to the certification.

For proper perspective, it should be recognized that a mobile home is a large assemblage of structural, mechanical and electrical components. As previously indicated, the requirements of the A119.1 Standard when detailed on data sheets for use by engineers checking a mobile home for compliance, exceed 1500 in number. Furthermore the assembly process involves considerable handwork—nailing, connecting, stapling, drilling, gluing, etc. This combination of factors tends to introduce some variations in the production line mobile home.

In those State programs in which we have participated as an independent third party, we have observed a substantial upgrading manifested first by observable changes in the design of the mobile home. Two by four lumber studs or studs of higher strength species of lumber are used in walls. Improved roof trusses and

window framing are employed. Correct wiring, lower flame spread interior finish and appropriately rated electrical apparatus are installed.

In addition, workmanship items such as support and protection for electrical wiring, slope of drain piping, installation of heating appliances, etc. have improved as a result of surveillance by third party or State inspectors.

A definite objective of the engineering evaluation and follow-up inspection which was accomplished was to assure that the various required production tests previously outlined were conducted on each mobile home.

Documentation is available to establish the conclusion that substantial improvement in mobile home compliance with adopted Standards was attained in State programs with which U.L. has been involved. In our opinion, State authorities familiar with the "before" and "after" circumstances will support this conclusion.

When a program of evaluation and inspection was initiated under the auspices of individual States, by and large, mobile home manufacturers were willing and able to correct deficiencies and modify their units to bring them in compliance with the Standard. The acceptance of the program was demonstrated by a voluntary choice by some manufacturers to obtain independent third party certification of mobile homes produced and sold in States which had not enacted requirements for third party evaluation and inspection.

Section 114 of the Act does not include any provision for independent third party audit for certification of conformity of mobile homes with applicable Standard. In a sense, this is akin to abandoning the traditional roles of the building inspector, electrical inspector and plumbing inspector in site built housing.

The initial engineering evaluation by independent agencies or State staff has been a valuable phase of compliance determination but the Act appears to place this entirely in the hands of the manufacturer. The procedures for implementation of a compliance assurance program should be uniform and should seek to assist the manufacturers by acquainting them with all requirements so that they can do whatever is necessary to achieve compliance. The independent audit has achieved this objective.

Only "after the fact" recourse is provided in the Act by civil penalties and injunctions and in the placement of obligations on manufacturers and distributors, but this is not a suitable substitute for determination of compliance in the factory. *Unless these audits are incorporated in the program, there is a likelihood that the Act will mean a reduction in the control and regulation being attained in those States that have a viable working program which requires determination of compliance by the State or its designated representative before the product leaves the factory. We strongly recommend that the Act require, as an initial determination of compliance, a plan review, an examination of production or prototype units and the conduct of all applicable tests specified in the Standards and that these activities be conducted by independent qualified agencies.*

This providing of an independent audit and inspection would be in keeping with traditional and accepted practice for housing in which a determination of compliance with applicable building codes, electrical codes and plumbing codes is made prior to occupancy. The difference from site built construction is that this determination is accomplished in a factory rather than on the site.

Section 112 of the Act authorizes the Secretary or his representatives to inspect the manufacturing facilities and production. The States have recognized the need for specific rules and regulations for implementing the requirements for inspection of mobile homes. Criteria for personnel, facilities and methodology have been developed and applied by States for approving agencies wishing to provide services as called for in the laws of that State. A Committee of the American Society for Testing and Materials has been formed at the request of the National Conference of States on Building Codes and Standards, to develop uniform criteria for accrediting agencies, using input from the National Bureau of Standards Project LEAP (Laboratory Evaluation and Accreditation Procedure). *We strongly urge that the Act be amended to empower the Secretary to use practical rules and regulations developed by consensus groups and regulatory oriented organizations, relating to evaluation and inspection of mobile homes.*

Reference documents include: Model Rules and Regulations For The Manufactured Building Act—developed by a special working group including State officials, model building code representatives, National Association of Building

Manufacturers, National Bureau of Standards and Department of Housing and Urban Development.

Model Documents For The Evaluation, Approval and Inspection Of Manufactured Buildings—developed in the Office of Building Standards and Codes Services of the National Bureau of Standards.

Section 120 of the Act allows for a State plan of enforcement without specific criteria for qualifying that plan. Approximately 35 States have some form of legislation dealing with mobile homes but the implementation differs widely. We understand that in some States, six inspectors handle all complaints against the manufacturers of mobile homes and recreational vehicles and also the construction of all vehicles, where as many as 58,000 mobile homes and recreational vehicles are manufactured annually. Other States have compliance evaluation and inspection programs employing qualified engineers for the evaluation, and inspection staffs capable of providing daily inspections in a plant if the production warrants.

We recommend that the criteria for qualifying a State program be specifically and clearly delineated. Reference to criteria developed by the National Conference of States on Building Codes and Standards entitled, "Model Rules for the Listing of Organizations to Label Industrialized Buildings" and which have been effectively applied in existing programs should be helpful in qualifying State programs.

One of the responsibilities of the Secretary under this Act is to issue Federal standards for mobile homes (Section 103(a)). There exists, at present, a Standard of the American National Standards Institute, ANSI A119.1 on mobile homes which is being referenced in State legislation. This Standard has been criticized as being inadequate in some respects. However, many improvements have been made in recent editions, and there is no doubt that still further improvements in the Standard For Mobile Homes will be forthcoming.

A requirement for egress windows in sleeping quarters has been recently adopted in the Standard.

A proposal for revision of the A119.1 Standard to require combustion product fire detectors in each mobile home has been favorable voted on at the annual meeting of the National Fire Protection Association in May, 1973. This adoption is normally followed by inclusion in the ANSI A119.1 Standard.

Statistics have been published in the Federal Register and other places which indicate the hazards of mobile homes. *The record was established on mobile homes which did not comply with the Standard. The present Standard For Mobile Homes cannot be condemned as inadequate by reason of past statistics.*

The Standard is under the jurisdiction of a body of experts with a balance of manufacturers—suppliers and consumer—general interest representatives, who have demonstrated in recent years a willingness to improve the Standard.

The chief need and the one to which we believe Federal legislation should be addressed is not a different standard but rather a more effective mechanism to assure compliance.

SUMMARY

Achieving a greater degree of public safety has been for U.L., for the past 79 years, not only a noble objective but also its exclusive day to day activity. Our study and analysis of this Act has considered how it will contribute to public safety, whether the implementation procedures will accomplish the intent and whether a Federal effort will blend and utilize the progressive and effective programs now being applied. Our comments in this testimony may be summarized as follows:

1. Regulation of mobile homes is needed to provide safety to users. It has been demonstrated that where compliance with a Standard is enforced, mobile homes of improved construction and workmanship relative to safety have been produced.

2. Many States have existing regulatory programs requiring comprehensive engineering evaluation and frequent inspections by unbiased, independent agencies or State employees and the Act should recognize and support such programs. The Act should not replace State programs with procedures that are less comprehensive and less effective. This would be a reduction rather than an improvement in public safety.

3. The Act can hasten a more uniform regulatory trend by requiring that all States adopt legislation requiring mobile homes to comply with nationally recognized Standards. Through the efforts of representatives of the National Bureau of Standards, Department of Housing and Urban Development, Model Building Code Organizations, National Conference of States on Building Codes and Standards, manufactured housing producers and others, model legislation, rules and regulations for implementation of the legislation and even guide documentation for use in programs for evaluation and inspection of all manufactured buildings including mobile homes have been developed and are available.

4. Nationally recognized Standard For Mobile Homes exists and has been undergoing revision to include more safety requirements. Experience has revealed that improvement in mobile homes is achieved when a system is initiated for assuring compliance of mobile homes with safety requirements of this Standard, and this should be a primary objective of the Act.

5. Although not previously mentioned in this testimony, we would recommend that if a National Mobile Home Safety Advisory Council is formed, as contemplated in the Act, it should include one or more representatives of independent third parties presently involved in the evaluation and inspection of mobile homes.

There is great opportunity, in our judgment, through this Act for the Federal Government to establish a workable, cooperative relationship with States, to speed up the possibility of reciprocal recognition by the States of mobile homes and to establish a level of safety for occupants of mobile homes which will be insured by utilization of procedures which are experience-proven. To grasp this opportunity, however, the Act will need to be revised. We would be pleased to work with the Committee Staff in developing language to achieve what the sponsors of the legislation, State regulatory authorities, Underwriters' Laboratories and others concerned with public safety hope to accomplish.

Used By Underwriters' Laboratories, Inc - Engineering Evaluation of Mobile Homes - Reference Testimony of Jack G. Bono

DATA SHEETS
FOR
MOBILE HOMES
A119.1 - 1969

HEATING, PLUMBING, FUEL SYSTEMS AND APPLIANCES 001-004

1. File No. _____
2. Assignment _____
3. Manufacturer's Name and Address _____
   _____
   _____
4. Client's Representative _____
5. Engineers Making Visit _____
6. Dates of Visit _____
7. Widths of Homes _____ Single _____ Double
8. Lengths of Homes Between _____ (Minimum) And _____ (Maximum) Feet
9. Designed for the _____ Zone(s)
10. Number of Baths _____
11. Heating System Electric _____ Gas _____ Oil _____
12. Air Conditioning Electric _____ Gas _____ None _____
    Split System ___ Self-Contained ___ Window ___ 108
13. Water Heater Electric _____ Gas _____ Oil _____
    Capacity _____
14. Cooking Range Electric _____ Gas _____

INFORMATION TO BE OBTAINED FROM MANUFACTURER:

1. Drawings showing drain waste and vent system for several typical homes including:
   A. Single Bath Model
   B. 1-1/2 Bath Model
   C. 1-3/4 or 2 Bath Model
   D. Most Complex System (Maximum Number of Fixtures)
2. Drawings showing potable water supply system for the homes mentioned above.
3. Drawing of typical gas supply piping systems (LP and Combo.).
4. Drawing of installation of the following:
   A. Dishwasher
   B. Disposal
   C. Gas Water Heater
   D. Furnace and Heat Duct
5. List of all gas-fired appliances which are not UL Listed.
6. List of all suppliers of plastic drain, waste and vent piping.
7. List of all nonferrous plumbing fixtures and evidence that they are Listed by an agency such as N.S.F.
8. Drawings of all field-installed constructions including waste lines for conversion from multiple to single drain and interconnection of two halves of double-wide homes.

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PLUMBING AND PLUMBING FIXTURES

ITEMS TO CHECK IN PLUMBING SHOP AND PARTS STORAGE:

Materials -

1. All materials, fixtures, and devices are free from defects and in conformance with applicable Standards. Yes ___ No ___

2. The following items pertain to drain system materials.

Drain-Waste-Vent -

A. Material _____

_____

B. Manufacturer _____

_____

C. Marking _____

_____

_____

3. All plastic drain, waste and vent piping is marked "NSF." Yes ___ No ___

4. Fittings for screw pipe shall be cast iron, brass, or plastic with standard pipe threads. Yes ___ No ___

5. Fittings for copper tubing shall be cast brass or drawn copper sweat solder. Yes ___ No ___

6. Brass adaptor fittings shall be used to joint copper tubing to threaded pipe. Yes ___ No ___

1. Drainage fittings are recessed drainage pattern with smooth interior waterways of the same diameter as the piping. Yes ___ No ___

2. Drainage fittings are designed to provide a 1/4 in. per ft grade in horizontal piping. Yes ___ No ___

3. All traps are 1-1/2 in. diameter, minimum. Yes ___ No ___

4. If answer to above is No, determine that 1-1/4 in. diameter (minimum) trap is used only on single fixtures having a drain opening not more than 2 in. diameter. Yes ___ No ___

5. Are all traps cast iron; cast brass of drawn brass tubing not less than No. 20 gauge or plastic? Yes ___ No ___

6. Are union joints beaded? Yes ___ No ___

7. Does each trap have manufacturer's name on trap and each tubing show tubing gauge? Yes ___ No ___

8. Are any used piping materials employed? Yes ___ No ___

1. The following items pertain to water supply piping materials.

Water Piping System -

A. Material _____

_____

_____

_____

B. Sizes _____

_____

_____

_____

2. No galvanized screw piping shall be less than 1/2 in., I.P.S.
Yes ___ No ___

3. Are any used piping materials employed? Yes ___ No ___

4. Are pipe dope, solder flux, oils, solvents, chemicals or other substances that are toxic, corrosive, or otherwise detrimental to the water system used? Yes ___ No ___

1. Plastic pipe is not to affect the potability of the water supply. If plastic water pipe is used, determine the manufacturer's name and type designation and details regarding its Listing by a plumbing agency.

2. All water pipe is standard weight brass, galvanized wrought iron, galvanized steel, Type K or L copper tubing or suitable plastic. Yes ___ No ___

3. Metal unions have metal-to-metal ground seats. Yes ___ No ___

4. Flare joints of soft copper water tubing are made with proper fittings. Yes ___ No ___

1. The following items pertain to plumbing fixtures.

Type of Fixture	Material

2. Shower stalls shall conform with the following:

A. Each shower stall receptor shall be provided with an approved type watertight receptor with sides and back extending 1 in. above the finished dam or threshold. In no case shall the depth of a shower receptor be less than 2 in. or more than 9 in. measured from the top of the finished threshold to the top of the drain. The wall area in shower compartments shall be constructed of smooth, noncorrosive, and nonabsorbent waterproof materials to a height not less than 6 ft above the floor level. Such walls shall form a watertight joint with each other and with the receptor or shower floor. The floor shall slope uniformly to the drain at not less than 1/4 nor more than 1/2 in. per ft.
Yes ___ No ___

B. Prefabricated shower stalls shall be approved or Listed and shall comply with all the requirements relating to plumbing fixtures and shower stalls. Yes ___ No ___

3. Determine manufacturer's name, model designation and name of Listing agency for any nonmetallic fixtures.

Workmanship (Water Supply, DWV and Gas Piping Systems) -

1. All piping equipment, appurtenances, and devices are installed in workmanlike manner. Yes ___ No ___

2. Is galvanized pipe (when used) bent or welded? Yes ___ No ___

3. Are pipe joints wrapped with string, paper, putty or other fillers? Yes ___ No ___

4. Pipe joint cement or thread lubricant is applied to male threads only. Yes ___ No ___ 705(R)

5. Are leak sealing or repair agents used to seal holes, cracks, etc., in pipe? Yes ___ No ___

6. All pipe threads are fully engaged with threads of fitting. Yes ___ No ___

7. Plastic pipe and fittings are joined per manufacturer's recommendations. Yes ___ No ___

1. Plastic pipe and copper fittings are inserted to full depth. Yes ___ No ___

2. All burrs are removed from pipe. Yes ___ No ___ 708(A)

3. All pipe ends are reamed out and clean. Yes ___ No ___ 708(A)

4. Flaring tool is used to shape the ends of flared tubing to match the flare of fittings. Yes ___ No ___

5. Solder joints for tubing are made with sweat solder type fittings. Yes ___ No ___

6. Surfaces to be soldered are cleaned bright. Yes ___ No ___

7. Joints are fluxed with noncorrosive paste type flux and made with 50-50 solder or solder having a high melting temperature. Yes ___ No ___

ITEMS TO CHECK IN FLOOR DEPARTMENT BEFORE FLOORING IS APPLIED:

1. The following items pertain to the drain system construction.

Note - Advise F.P. Dept of any cutting or notching of structural members.

Note - Use MTST 400 and 401 for reporting all variations.

A. Horizontal drainage piping is run in practical alignment and has uniform slope of not less than 1/4 in. per ft toward the mobile home drain outlet. Yes ___ No ___ 407 712(A)

B. Where impractical, due to the structural features or arrangement of mobile home, to obtain a slope of 1/4 in. per ft, pipe or piping has slope of not less than 1/8 in. per ft and a full size cleanout is installed at the upper end. Yes ___ No ___ 407 712(A)

C. Drain piping is secured by strapping and blocking at sufficiently close intervals (4 to 6 ft) to maintain the slope specified above and to carry the weight of the pipe and its contents. Yes ___ No ___

D. Cleaning tools are required to pass through more than 360 deg of fittings to reach any part of the drainage system. Yes ___ No ___

DRAIN SYSTEM FITTINGS:

1. All drainage piping is free from drilled and tapped holes for connections. Yes ___ No ___

2. Does any fitting, connecting device or installation method obstruct or retard flow? Yes ___ No ___

3. All fittings are installed for correct flow. Yes ___ No ___

1. Appropriate fittings are used for all changes in direction or pipe size and at all pipe joints. Yes ___ No ___

2. The material and design of fittings conform to the type of piping used. Yes ___ No ___

3. Horizontal drainage lines, connecting with a vertical pipe or horizontal drainage lines enter through 45 deg "Y" branches, 60 deg "Y" branches, longturn "TY" branches, sanitary "T" branches, or other fittings or combination of fittings having equivalent sweep. Yes ___ No ___

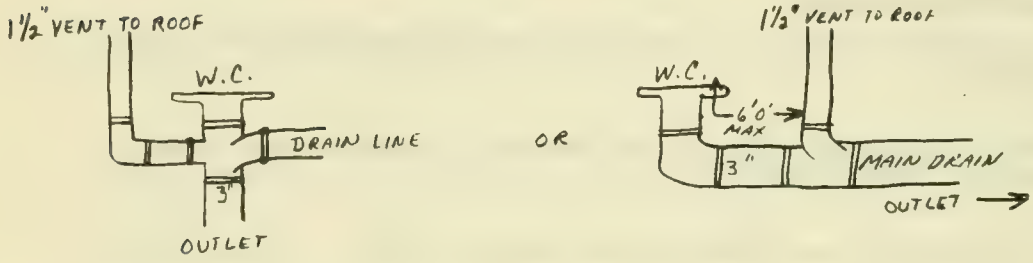
4. Are fittings having more than one branch at the same level used? Yes ___ No ___

WATER CLOSET VENTING:

Note - Venting of the water closet should be double checked on homes which are nearly completed.

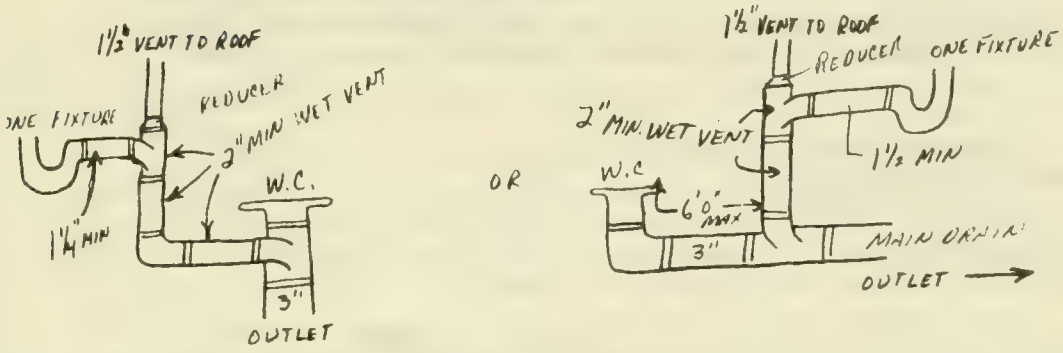
1. The drain piping for each water closet is vented (main vent) by a 1-1/2 in. minimum diameter or equivalent vent connected to the main drain by one of the following methods. 414

A. A 1-1/2 in. diameter (minimum) individual vent pipe or equivalent directly connected to the water closet drain and extended undiminished in size through the roof.



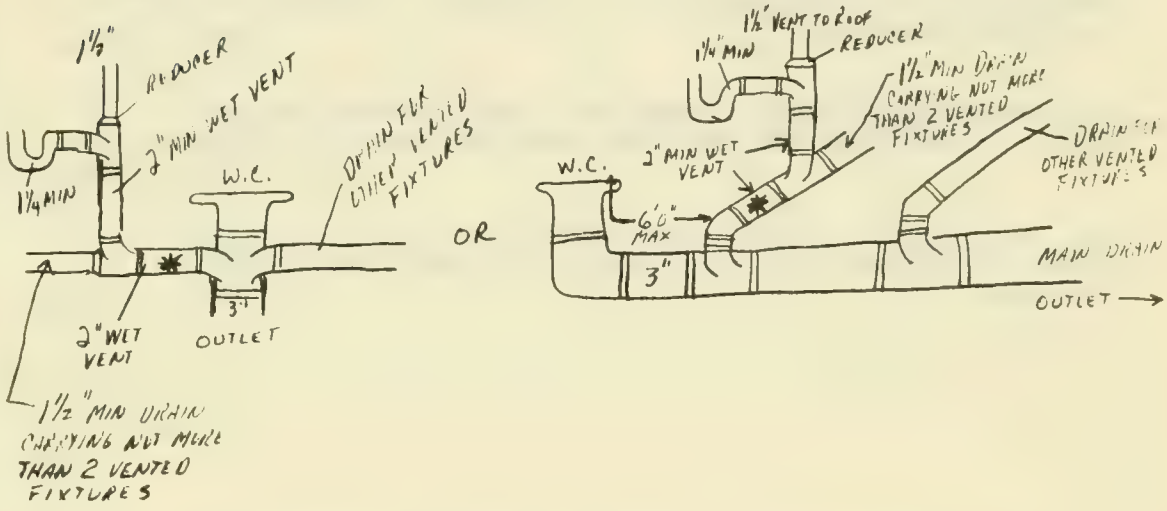
Provided _____ Not Provided _____

B. A 1-1/2 in. diameter (minimum) continuous vent or equivalent indirectly connected to the water closet drain piping through a 2 in. wet-vented drain that carries the waste of not more than one fixture.



Provided _____ Not Provided _____

C. Two or more vented drains when at least one is wet-vented and each drain is separately connected to the main drain.



Note - Section of drain marked with * is the wet-vent for the water closet and cannot carry the waste of more than three fixtures unless it is greater than 2 in. diameter.

Provided _____ Not Provided _____

1. Where by necessity, wet-vented drain piping is offset other vented fixture drains or relief vents are connected to the drain piping below the vertical offsets. Yes ___ No ___

2. Wet-vented drain pipe is 2 in. minimum diameter and at least one pipe size larger than the largest connected trap or fixture drain. Yes ___ No ___ 417

3. Are more than three fixtures connected to a 2 in. diameter wet-vented drain system? Yes ___ No ___

4. The water closet is located with 6 ft 0 in. of the vent or connection of the wet vent to the main drain. Yes ___ No ___

5. Vents for horizontal drains connect above the centerline of the drain piping ahead (downstream) of the trap. Yes ___ No ___ 412

<u>The Following Items Pertain to the Water Supply Piping Construction</u> -

1. Piping in plumbing system is installed without undue strain and stress and provisions made for expansion, contaction, and structural settlement. Yes ___ No ___

2. Piping is secured at sufficient close intervals to keep piping in alignment and carry the weight of pipe and contents. Yes ___ No ___ 300

3. Hangers and anchors are of sufficient strength to support their proportional share of the pipe alignments and prevent rattling. Yes ___ No ___

1. Is any part of the water system connected to any drainage piping? Yes ___ No ___

2. Appropriate fittings are used for all changes in direction or size and at pipe joints. Yes ___ No ___

3. The material and design of fittings conform to the type of piping used. Yes ___ No ___

4. Fittings for screw piping are standard weight galvanized iron for galvanized iron and steel pipe, and of brass for brass piping. Yes ___ No ___

5. Fittings for copper tubing are cast brass or drawn copper sweat solder pattern or flare type. Yes ___ No ___

6. Fittings for cold water, plastic water piping are of brass or plastic materials. Yes ___ No ___

1. The size of water supply piping and branch lines shall not be less than sizes shown in the table below.

TABLE 1
MINIMUM SIZE TUBING AND PIPE FOR WATER DISTRIBUTION SYSTEMS

Number of Fixtures	Tubing Inner Dia. (Inches)	Tubing Outer Dia. (Inches)	Pipe Iron Pipe Size (Inches)
1	1/4*	3/8	1/2
2	3/8	1/2	1/2
3	1/2	5/8	1/2
4	1/2	5/8	1/2
5 or more	3/4	7/8	3/4

*6 feet maximum length for 1/4 inch ID tubing.

Exception to the Above Table - 3/8 in. ID nominal or 1/2 in. OD minimum size for clothes washing or dishwashing machines, unless larger size is recommended by the fixture manufacturer.

2. Hot and cold water piping systems are computed by the following method: Yes ___ No ___ 308

Start at the most remote outlet on any branch of the hot or cold water piping and progressively count towards the water service connection, computing the total number of fixtures supplied along each section of piping. Where branches are joined together, the number of fixtures on each branch shall be totalled so that no fixture is counted twice. Use Table I to determine required pipe or tubing size. (Water heater or food waste disposal is not counted as a water using fixture.)

3. The smallest orifice or opening in the water supply distribution system (except those immediately controlling one fixture supply) when fully opened, shall have a cross-sectional area at least equal to the cross-sectional area of the nominal size of the pipe in which the valve is installed. Yes ___ No ___

ITEMS TO CHECK ON COMPLETED FLOOR BEFORE WALLS ARE INSTALLED:

The Following Items Pertain to the Water Heater Installation -

1. The water heater is installed with a fully-automatic valve or valves designed to provide temperature and pressure relief. Yes ___ No ___

2. The temperature relief valve or the combined pressure and temperature relief valve of a water heater is installed with the temperature sensing element immersed in the hottest water within the upper 6 in. of the tank. Yes ___ No ___

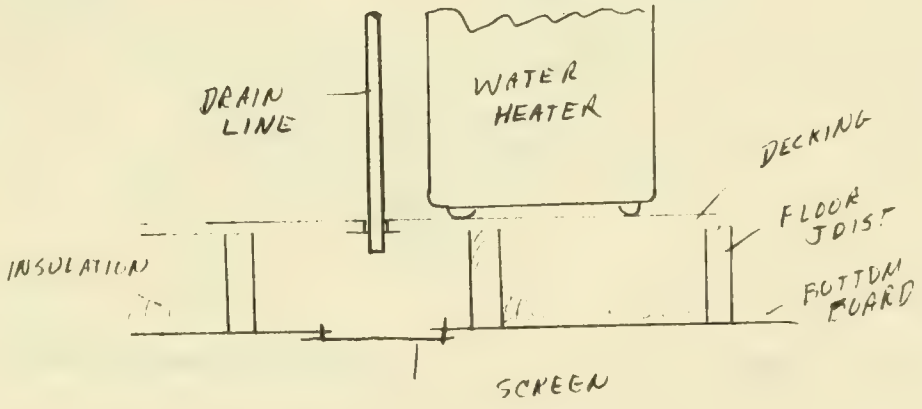
3. Valve is set to start relieving at a pressure not exceeding the rated working pressure of the tank and at or below a water temperature of 210 F. Yes ___ No ___

4. All relief valves have a drain pipe not smaller than the relief valve drain connection pipe size. Yes ___ No ___

5. Is any part of the drain line trapped? Yes ___ No ___

6. Outlet of drain line is not threaded. Yes ___ No ___

7. If the relief valve is located within the mobile home, the drain line extend outside, with the end directed downward in a location where the outlet end will be protected from dirt, mud, and freezing. Yes ___ No ___ 301



The Following Items Pertain to the Water Closet Installation -

1. Water closets are rigidly bolted to closet flange. Yes ___ No ___

2. The drain connection for each water closet is fitted with an iron, brass, or plastic floor flange adaptor ring, adaptor ring permanently attached to the drain piping, and securely fastened to the floor. Yes ___ No ___

3. A gasket or setting compound used to form a watertight seal between fixture and drain connection. Yes ___ No ___

4. The exposed joint between the water closet and the floor is watertight and the floor under the water closet (and at least 6 in. around it) is made impervious to moisture. (Stool should be caulked to tile on floor.) Yes ___ No ___ 701(A)

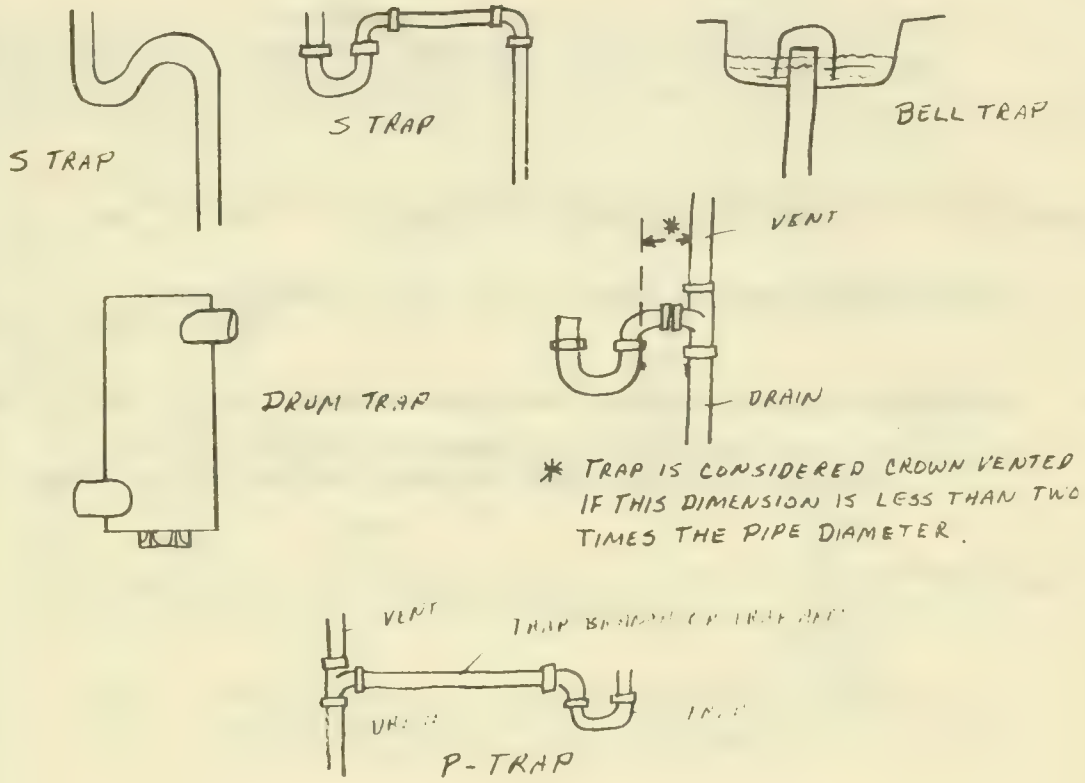
ITEMS TO CHECK ON PRODUCTION LINE:

The Following Items Pertain to the Drain System -

1. A "P" trap is used in each plumbing fixture. Yes ___ No ___ 405 711(A)

2. Are any fixtures double trapped? Yes ___ No ___

3. Are any fixtures equipped with full "S" traps, bell traps, drum traps or crown vent traps? Yes ___ No ___ 405 711(A)



4. Is each trap self-cleaning? Yes ___ No ___

5. Each trap has a water seal not less than 2 in. nor more than 4 in. and set true. Yes ___ No ___

1. Are any traps larger than waste pipe to which it is connected? Yes ___ No ___

2. Each trap is as close to vent and fixture outlet as structure permits. Yes ___ No ___

3. Distance between trap and vent or vented waste line conforms to the following table.

DISTANCE OF FIXTURE TRAP FROM VENT

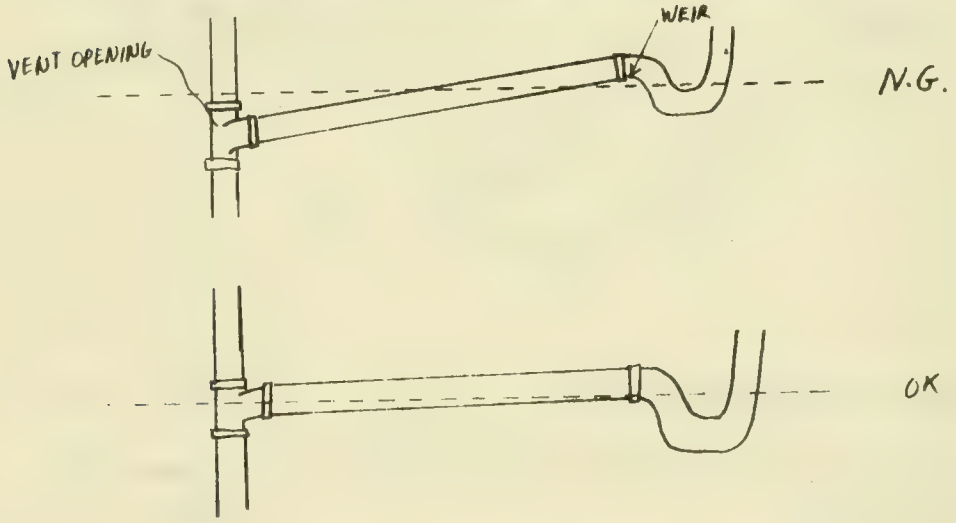
Size of Trap Arm (Inches)	Distance Trap to Vent
1-1/4	4 feet 6 inches
1-1/2	4 feet 6 inches
2	5 feet 0 inches
3	6 feet 0 inches

4. Does the vertical distance from a trap to a fixture outlet exceed 24 in.? (Except washing machine standpipe.) Yes ___ No ___

5. Is drain pipe sloped at least 1/4 in. per ft towards vent? Yes ___ No ___ 406

6. Is drain pipe sloped greater than pipe diameter? Yes ___ No ___ 406

Note - The above requirement indicates that the bottom of a vent opening must always be above the weir of the trap.



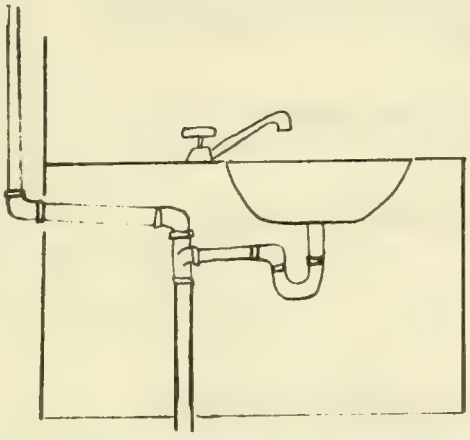
1. Does fixture drain piping between trap and vent change direction or offset more than 180 deg? Yes ___ No ___

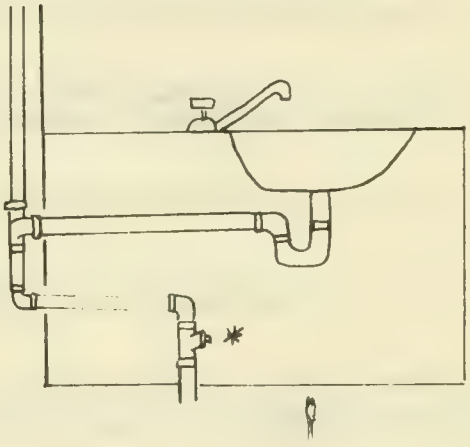
2. Inaccessible fixture connections are constructed according to requirements for drain pipe. Yes ___ No ___

Note - Because slip joints are suitable only for locations upstream of a trap seal they do not meet the requirements for drain pipe. Consequently, slip joints are only suitable where they are accessible for inspection and repair.

3. Drainage system can be cleaned through fixtures, drains or vents. Yes ___ No ___

4. Each vent extend vertically from its fixture "T" or point of connection with the waste piping to a point not less than 6 in. above the extreme floor level of the fixture before offsetting horizontally or being connected with any other vent pipe.
Yes ___ No ___ 411





Note - Cleanout fitting (*) may be necessary if cleaning tool is required to pass through 360 deg of fittings in drain line if it is not included.

5. All vents grade or drain back to the drainage system by gravity. Yes ___ No ___

1. Fixture traps located within the distance given in the following table: Yes ___ No ___

Distance of Fixture Trap From Vent

Size of trap arm inches	Distance trap to Vent
1¼	4 ft. 6 in.
1½	4 ft. 6 in.
2	5 ft. 0 in.
3	6 ft. 0 in.

2. Does more than one trap connect to a trap branch (trap arm)? Yes ___ No ___ 416

3. All drain pipe sizes shall conform to the following:

A. A 1-1/2 in. minimum diameter piping for one and not more than three individually vented fixtures. Yes ___ No ___

B. A 2 in. minimum diameter piping for four or more fixtures individually vented. Yes ___ No ___

C. A 3 in. minimum diameter piping for water closets. Yes ___ No ___

D. 3 in. diameter drain outlet. Yes ___ No ___

4. Each plumbing fixture trap is protected against siphonage and back pressure, and air circulation is ensured throughout all parts of the drainage system by means of vent pipes. Yes ___ No ___

1. An individual vent pipe equivalent in area to 1-1/4 in. tubing is provided for all individually vented fixtures with a 1-1/2 in. or smaller trap. Yes ___ No ___

2. The main vent, water closet vent and relief vent, and the continuous vent of wet-vented systems have an area equivalent to 1-1/2 in. tubing. Yes ___ No ___

3. If an individual vent pipe serves as a common vent without any increase in size only two traps are located within the distance allowed from their vent, and their trap arms are connected separately at the same level into a double fitting. Yes ___ No ___

4. Vent pipe extends full size through the roof and has a minimum area equivalent to a 1-1/2 in. I.P.S. Yes ___ No ___

5. Is any part of the water system connected to any drainage or vent piping? Yes ___ No ___

ITEMS TO CHECK ON A COMPLETED HOME:

The Following Items Pertain to the Drain System -

1. All piping is located so as not to interfere with windows, doors, etc. Yes ___ No ___

2. Are pipe, supports, drains, etc., protruding in a manner to be subjected to road hazards in transit? Yes ___ No ___ 403

3. Exterior openings around pipe are closed to prevent entrance of rodents. Yes ___ No ___ 404 703(A)

4. Traps with slip joint connections are readily accessible for repair and inspection. Yes ___ No ___ 415 710(A)

5. Traps are protected from freezing. Yes ___ No ___

6. Are cleanouts provided? Yes ___ No ___

7. A full size opening is installed at upper end of any section of drain pipe where 1/4 in. per ft slope not provided. Yes ___ No ___ 419

8. Cleanouts are accessible through 12 in. clearance directly in front of opening. Yes ___ No ___ 419

9. Cleanout fitting opens in direction opposite of flow or at right angle to pipe. Yes ___ No ___

1. Concealed cleanouts without access covers extend above floor or outside home with pipe and fittings installed as required for drainage piping. Yes ___ No ___

2. Cleanout caps and plugs are brass or plastic with screw pipe threads. Yes ___ No ___

3. All cleanout plugs have raised heads except plugs at floor level have countersunk slots. Yes ___ No ___

4. Unobstructed strainers are used in each plumbing fixture except water closets. Yes ___ No ___

5. Exposed or accessible fixture tailpieces are No. 20 gauge or equivalent. Yes ___ No ___

6. Each fixture tailpiece, continuous waste, or waste and overflow is not less than 1-1/2 in. diameter for sinks of two or more compartments, dishwashers, clothes washing machines, laundry tubs, bath tubs, and not less than 1-1/4 in. diameter for lavatories and single compartment sinks having a 2 in. maximum drain opening. Yes ___ No ___

7. Concealed slip joint connections are provided with unobstructed access panels. Yes ___ No ___ 415 710(A)

1. Each mobile home has only one drain outlet. Yes ___ No ___ 409

2. Outlet terminate in the rear third section of the left (road) side. Yes ___ No ___ 409

3. Outlet is tagged or marked "Drain Outlet" or "Sewer Outlet." Yes ___ No ___ 306 418

4. How is tag applied? _____

_____

5. Specify material of tag. _____

_____

1. Does the drain outlet terminate horizontally or vertically?
Horizontally ___ Vertically ___

2. If "Horizontal" specify type of fitting(s) provided.

_____

_____

_____

3. A cap or plug on the drain outlet is permanently attached to the structure by a chain or cable. Yes ___ No ___ 408

4. Drainage outlet and couplers of the mobile home provided with a minimum clearance of 3 in. in any direction from all parts of the structure or appurtenances and with not less than 18 in. unrestricted clearance directly in front of the drainage outlet. Yes ___ No ___ 413

The Following Items Pertain to the Water Supply Piping -

1. All metallic piping, pipe threads, and hangers exposed to weather or road hazards are painted, coated, wrapped or protected.
Yes ___ No ___

2. All piping and fixtures subject to freezing temperatures are insulated. Yes ___ No ___

3. Each mobile home equipped with a kitchen sink, and bath tub and/or shower is provided with a hot water supply system including a water heater. Yes ___ No ___

4. The water distribution system is equipped with a 3/4 in. inlet coupling located within the rear third of the length of the mobile home. Yes ___ No ___

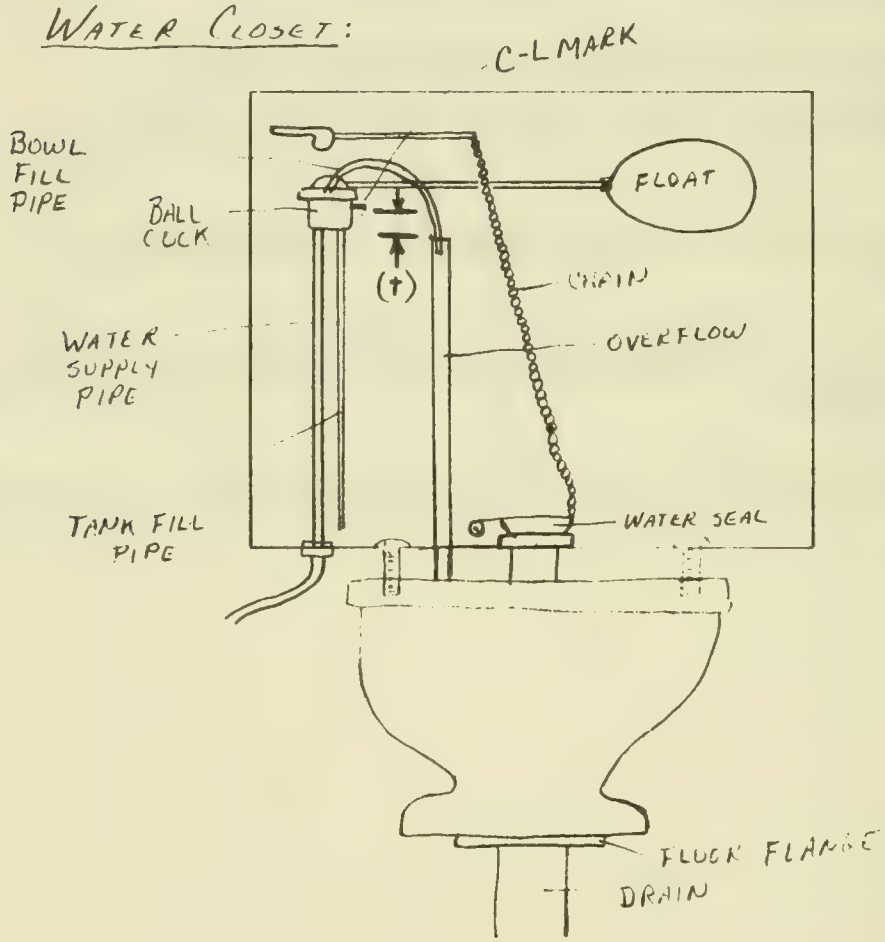
1. This connection is tagged or marked "Fresh Water Connection" or "Fresh Water Fill." Yes ___ No ___ 306

2. A matching cap or plug is provided to seal the water inlet when it is not in use and attached with a substantial chain. Yes ___ No ___ 305

3. A master cold water shutoff gate valve is installed on the main feeder line in an accessible area. Yes ___ No ___ 704(A)

The Following Items Pertain to Plumbing Fixtures -

1. All piping, fixtures or equipment are so located so as not to interfere with windows, doors, etc. Yes ___ No ___



Note - The following items pertain to flush tank type toilets.
If other types are incurred, refer to the Standard.

1. Water closet flushing devices are designed to replace water seal in bowl after each operation. Yes ___ No ___

2. Flush tanks are fitted with overflow pipe large enough to prevent flooding at maximum flow rate of ball cock. Yes ___ No ___

3. Water closet flush tanks are equipped with an antisiphon ball cock installed and maintained with its outlet or critical level mark not less than 1 in. above the full opening of the overflow pipe. (Refer to (+) dimension on illustration.) Yes ___ No ___ 309 715(A)

4. If screw holes are provided, bowl is <u>securely</u> fastened to floor. Yes ___ No ___

5. Bolts or screws are brass or other corrosion resistant material. Yes ___ No ___

6. Are flush tanks secured in place? Yes ___ No ___

Details - _____

_____

7. Can contents of toilet be siphoned back into water system? Yes ___ No ___

TUBS AND SHOWERS:

1. Fixed shower doors and tub and shower enclosures shall be constructed of materials such as wired-glass, laminated safety glass, reinforced fiberglass, reinforced plastics, or other Listed materials. Yes ___ No ___ 304

2. Hinged shower doors open outward. Yes ___ No ___

OTHER FIXTURES:

1. Plumbing fixtures are located and installed to provide easy access for cleaning and repair. Yes ___ No ___

2. Fixtures are level and in true alignment with adjacent walls. Yes ___ No ___

3. Wall-hung fixtures are securely attached to walls. Yes ___ No ___

Details - _____

_____

4. Is any strain transmitted to piping connections? Yes ___ No ___

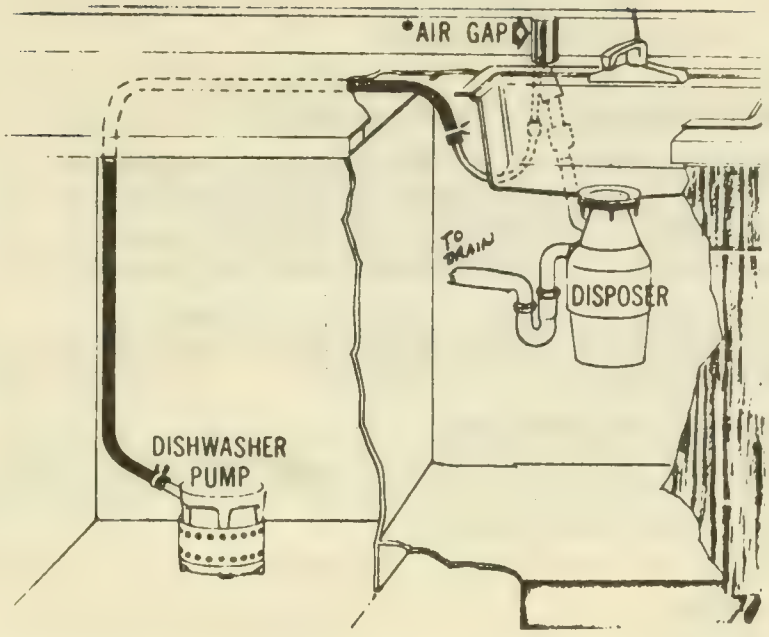
5. The rim outlets of faucets, spouts, and similar devices are spaced at least 1 in. above the flood level of the fixture. Yes ___ No ___

6. Clothes washing machine provided. Yes ___ No ___

7. Dishwashing machine provided. Yes ___ No ___

8. If "Yes" to either of above, is fixture manufacturer's installation instructions provided? Yes ___ No ___

9. An approved or Listed "Y" or other directional-type branch fitting shall be installed in every tailpiece or continuous waste that receives the discharge from food waste disposal units, dishwashing, or other force-discharge fixture or appliance. Dishwasher drains shall not be connected to a sink tailpiece, continuous waste, or trap on the discharge side of a food waste disposal unit. Yes ___ No ___ 303



1. A dishwashing machine, if provided, discharges its waste through a fixed air gap installed above the machine. Yes ___ No ___ 303

2. The drain connection from an air gap connects to an individual trap, a directional fitting installed in a sink tailpiece, or to the opening provided on the inlet side of a food waste disposal. Yes ___ No ___ 303

3. Is dishwasher connected to discharge side of food disposal? Yes ___ No ___ 303

4. Standpipe for clothes washing machine (a) is 1-1/2 in. diameter (minimum), (b) is connected to a vented trap, (c) extends not less than 18 in. or more than 30 in. above its trap, (d) terminates in accessible location at least 6 in. above water level, and (e) standpipe is capped when washing machine is not provided. Yes ___ No ___ 410 706(A)

GAS PIPING
SYSTEMS AND APPLIANCES

The Following Items Pertain to Gas Piping Materials -

Note 1 - Questions relative to LP-Gas containers, control valves and regulating equipment and mounting on chassis of mobile home not included in this outline due to infrequent use in mobile home construction. If applicable, refer to Standard.

Note 2 - The following questions relate only to fuel gas piping attached to the mobile home. They do not apply to piping in the appliance.

1. Gas piping system is designed for:

   A. LP-Gas Only _____

   B. Natural Gas, Also Suitable For LP-Gas _____

   C. Either of Above _____

2. All materials for gas piping is new. Yes ___ No ___

3. All gas piping is free from defects and internal obstructions. Yes ___ No ___

4. Gas piping material consists of iron or steel or is threaded copper or brass pipe in iron pipe sizes. Yes ___ No ___

5. Copper tubing is type, Grade K or L (marked on tubing or box). Yes ___ No ___

6. Copper tubing used in natural gas systems is internally tinned. Yes ___ No ___ 707(A)

7. Steel tubing is externally corrosion protected (painted) and has a minimum wall thickness of 0.049 in. Yes ___ No ___

1. Are pipe joints welded or brazed? Yes ___ No ___

2. Is pipe of screw joint type? Yes ___ No ___

3. Are combinations of right and left nipples and couplings used in supply piping system? Yes ___ No ___

4. If unions are used, ground joint type? Yes ___ No ___

5. All shutoff valves and appurtenances in gas piping are suitable for LP-Gas. Yes ___ No ___ 200

6. To determine if valves are suitable, get the manufacturer's name, model designation and the name of the listing agency. Request evidence of Listing such as an AGA Certificate.

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<u>The Following Items Pertain to Gas Piping System</u> -

1. Is tubing run inside walls, floors, or partitions? Yes ___ No ___

2. Are tubing or piping joints located in wall, floor, partitions or similar concealed space? Yes ___ No ___

3. Is gas piping used as electrical grounding? Yes ___ No ___

The Following Items Pertain to the Heat Duct -

MATERIALS -

Air Duct Construction -
(Specify Gauge or Thickness)

1. Galvanized Steel _____

2. Tin Plated Steel _____

3. Aluminum _____

4. Nonmetallic _____
(Describe)

5. Does metallic duct material conform to the following table? Yes ___ No ___

Minimum Metal Thickness For Ducts

Duct Type	Diameter or Width 14 Inches Or Less	Diameter or Width Over 14 Inches
Round	0.013 in.	0.016 in.
Enclosed Rectangular	0.013 in.	0.016 in.
Exposed Rectangular	0.016 in.	0.019 in.

6. If nonmetallic, is duct Labeled Class 1 air duct material? Yes ___ No ___

7. Is duct installed in accordance with manufacturer's instructions? Yes ___ No ___

8. If duct system is integral with structure, get complete details for review by engineers, explain. Yes ___ No ___

CONSTRUCTION:

1. Ducts are securely supported (describe). Yes ___ No ___700(A)

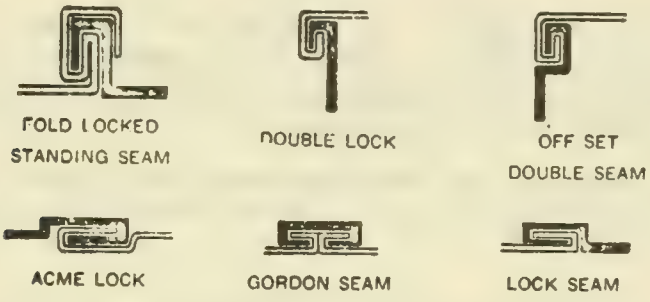
_____

_____

Note - Should be secured every 4 to 6 ft.

2. Joints and seams of ducts are fastened and substantially air-tight. See below for typical lock seams. Yes ___ No ___

TYPES OF ACCEPTABLE LOCK-SEAMS



3. Is tape or caulking used on mechanical joints. Yes ___ No ___

4. If "Yes," describe material _____

_____

5. Heat duct is provided with clearance required for furnaces being used. Yes ___ No ___

6. Record dimensions of main duct _____ by _____ in.

Note - Minimum dimensions must be 2-1/2 in. or more.

7. Record dimensions of branch duct _____ by _____ in.

Note - Minimum dimensions must be 1-1/2 in. or more.

8. Record minimum and maximum lengths used. Minimum, _____ ft.
Maximum, _____ ft.

9. Record minimum and maximum number of registers. Minimum _____
Maximum _____

10. Record size of register opening. _____ sq in.

ITEMS TO CHECK ON ROOF OF MOBILE HOME:

1. Each vent pipe through a roof extend through its flashing and terminate vertically, not less than 2 in. above the roof.
Yes ___ No ___

2. The opening around each vent pipe is made watertight by an adequate flashing or flashing material. Yes ___ No ___

3. Are vent openings less than 3 ft, 0 in. away from any motor-driven air intake that opens into habitable areas? Yes ___ No ___

Note - Some furnace models are equipped with a fresh air intake knockout in their blower compartment. If this provision is used and a duct is brought to the roof, this is a motor-driven air intake and must conform to this requirement.

4. Notify F.P. Dept. of any instances where roof trusses are cut or placed at greater than their designed spacing to allow the passage of flue or vent pipes.

5. Roof jacks for gas or oil-fired appliances are installed in accordance with their Listing. If installed on pitched roof, such as commonly incurred on double-wide homes, roof jack is suitable for pitched roof installation. Yes ___ No ___

The Following Items Pertain to Heat Producing Appliances -

1. All parts required for installation as marked on the appliance name plate are used and are in no way modified. Yes ___ No ___

2. Appliances are installed at Listed clearances. Yes ___ No ___709(A)

3. Furnace sub-base is installed in accordance with manufacturer's instructions. Yes ___ No ___

ITEMS TO CHECK ON COMPLETED HOMES:

The Following Items Pertain to the Installation of Appliances -

1. Oil and gas appliances are Listed as mobile home appliances. Yes ___ No ___

2. AGA Listed gas appliances are used. Yes ___ No ___ 104

3. Appliance manufacturer's instructions are with appliance. Yes ___ No ___

4. Appliances are secured in place. Yes ___ No ___ 702(A)

5. If mobile home for natural and LP-Gas, appliance can be readily converted to either fuel. Yes ___ No ___

6. Gas or oil heating appliances are vented to outside. Yes ___ No ___

7. Does vent terminate under mobile home? Yes ___ No ___

8. Is all appliance marking easily readable after installation? Yes ___ No ___

9. Unit is accessible for inspection, service, and repair or replacement without removing permanent construction. Yes ___ No ___

10. Furnace flue pipe is accessible for inspection, service and repair or replacement without removing permanent construction. Yes ___ No ___

11. Provisions are made to prevent using the area above the furance as a storage space. Yes ___ No ___ 105

12. Roof Jacks are installed so that ceiling line is even with or below ceiling. Yes ___ No ___

13. Are homes equipped with fuel burning fireplaces? Yes ___ No ___ 109

1. Sufficient room is available to observe burner, control and igntion means while starting gas or oil appliance. Yes ___ No ___

2. Heat producing appliances so located that combustible materials (doors, drapes, etc.) will not swing closer than required front clearance. Yes ___ No ___

3. Heat producing appliances are installed with their required clearances. Yes ___ No ___ 102 111

4. Gas-fired water heaters, if provided, are installed in accordance with instructions provided by the manufacturer. Yes ___ No ___ 101 106

5. Refrigerators, if installed in an alcove, are provided with clearances specified on thier name plate. Yes ___ No ___ 110

6. A 12 in. horizontal clearance is provided from edge of nearest window to edge of nearest burner (range). Yes ___ No ___ 714(A)

7. If range is not supplied, a 30 in. wide (minimum) space is provided. Yes ___ No ___

8. If range not provided, horizontal distance measured from edge of window to edge of range space, is 12 in. (minimum). Yes ___ No ___

9. Distance to combustible material or metal cabinets above range is not less than 30 in., or not less than 24 in. when protected as follows:

A. The underside of the combustible material or metal cabinet above the cooking top is protected with asbestos millboard at least 1/4 in. thick covered with sheet metal not lighter than No. 28 manufacturer's standard gauge, or

B. A metal ventilating hood of not lighter than No. 28 manufacturer's standard gauge sheet metal is installed above the hood and top with a clearance of not less than 1/4 in. between and hood and the underside of the combustible material or metal cabinet and the hood is at least as wide as the range is and is centered over the range.

Yes ___ No ___ 107

10. If range is not supplied, combustible material or cabinets over range are spaced at least 66 in. above the floor. Yes ___ No ___

The Following Pertains to the Return Air Provisions -

1. Provisions are made for return of circulating air from all rooms and living spaces (except bathroom) to furnace inlet air.
Yes ___ No ___

2. Return air ducts, if provided, have a total cross-sectional area at the furnace inlet not less than 2 sq in. per 1000 Btu per hr furnace input. (See Table I.) Yes ___ No ___

TABLE I

Btu/Hr Input Expressed in kw, cc/min, gph

Btu/hr	Kilowatts	cc/min	Gal/hr
40,000	11.7	18	0.285
60,000	17.6	28	0.43
80,000	23.4	36	0.71
100,000	29.2	45	0.86
120,000	35.	54	0.71
140,000	41.	63	1.0

3. Are dampers in return air system for fresh air intake arranged such that required cross-sectional area is obtained in all positions. Yes ___ No ___

4. Return air openings provided by undercut doors are a minimum size of 2 sq in. for each 5 sq ft of living space closed off by the door. Yes ___ No ___ 100

5. Return air openings provided by grilled or louvered openings in doors or partitions have a minimum free area not less than 1 sq in. for each 5 sq ft of living space. Yes ___ No ___ 100

6. The undercut is a minimum of 2 in. and a maximum of 2-1/2 in.
Yes ___ No ___ 100

The Following Pertains to the Gas Supply Piping System -

1. Homes with gas systems are available for review. Yes ___ No ___ 103

2. For LP-Gas system, supply connection is located:

   A. At hitch,

   B. Container recess, or

   C. In rear 1/3 of total length of mobile home and within 18 in. of left (road) side wall. (Indicate which.)

3. If LP-Gas and natural gas system:

   A. Supply connection located under rear 1/3 of mobile home and within 18 in. of left (road) side wall. Yes ___ No ___ 713(A)

   B. Is additional connection located at hitch? Yes ___ No ___

4. A 3 by 1-3/4 in. etched, stamped or embossed metal tag of 0.020 in. thick brass, stainless steel, anodized aluminum, or alclad aluminum is attached to the outside of metal wall at each gas supply connection or to the end of pipe, and includes information described below. Yes ___ No ___ 201

LP-Gas System

This gas piping system is designed for use of liquefied petroleum gas only.

DO NOT CONNECT NATURAL GAS TO THIS SYSTEM.

CONTAINER SHUTOFF VALVES SHALL BE CLOSED DURING TRANSIT.

Before turning on gas, make certain all gas connections have been made tight, all appliance valves are turned off, and any unconnected outlets are capped.

After turning on gas, test gas piping and appliance for leakage with soapy water, and light all pilots.

Combination LP-Gas and Natural Gas System

This gas piping system is designed for use of either liquefied petroleum gas or natural gas.

NOTICE: BEFORE TURNING ON GAS BE CERTAIN APPLIANCES ARE DESIGNED FOR THE GAS CONNECTED AND ARE EQUIPPED WITH CORRECT ORIFICES. SECURELY CAP THIS INLET WHEN NOT CONNECTED FOR USE.

Before turning on gas, make certain all gas connections have been made tight, all appliance valves are turned off, and any unconnected outlets are capped.

After turning on gas, test gas piping and appliances for leakage with soapy water, and light all pilots.

1. If gas system has more than one connection, a suitable cap is provided at each inlet and is securely attached to mobile home. Yes ___ No ___ 717(A)

2. Where tubing passes through walls, floors and partitions and frame members, it is protected by a grommet which snugly fits tubing and hole through which it passes. Yes ___ No ___ 716(A)

3. Are appliances connected by use of flexible or semirigid tubing? Yes ___ No ___

4. Do appliance connectors run through walls, floors or partitions? Yes ___ No ___

5. Are aluminum appliance connectors used externally? Yes ___ No ___

A. All gas piping is adequately supported by straps (corrosion protected) at intervals of not more than 4 ft, or Yes ___ No ___ 203

B. Support is provided by structural members. Yes ___ No ___

6. Solid gas supply connections if used, are rigidly anchored to structural member within 6 in. of supply connection. Yes ___ No ___

7. Natural gas supply connection is 3/4 in. nominal pipe size minimum. Yes ___ No ___

1. Gas piping system is sized in accordance with following table. Yes ___ No ___ 202

Sizing Gas Piping Systems

Combination LP-Natural Gas System (Based on a Total Pressure Drop of ½ in. H_2O)			LP-Gas-Only System (Based on a Pressure Drop of ½ in H_2O)		
Main Gas Manifold			**Main Gas Manifold**		
Total Appliance Input Name Plate Rating	**Nominal Pipe Size**		**Total Appliance Input Name Plate Rating**	**Nominal Pipe Size**	**Tube od**
No More Than:			No More Than:		
7,000 Btu/hr	¼		11,000 Btu/hr	¼	⅜
27,000 Btu/hr	⅜		42,000 Btu/hr	⅜	½
56,000 Btu/hr	½		88,000 Btu/hr	½	⅝
115,000 Btu/hr	¾		183,000 Btu/hr	¾	¾
220,000 Btu/hr	1		340,000 Btu/hr	1	
Branch Take-offs			**Branch Take-offs**		
Individual Appliance Input Name Plate Rating	**Nominal Pipe Size**	**Tube od**	**Individual Appliance Input Name Plate Rating**	**Nominal Pipe Size**	**Tube od**
No More Than:			No More Than:		
25,000 Btu/hr		⅜	2,500 Btu/hr		¼
31,000 Btu/hr	¼		39,000 Btu/hr		⅜
49,000 Btu/hr		½	49,000 Btu/hr	¼	
64,000 Btu/hr	⅜		77,000 Btu/hr		½
95,000 Btu/hr		¾	100,000 Btu/hr	⅜	
120,000 Btu/hr	½		150,000 Btu/hr		¾
250,000 Btu/hr	¾		190,000 Btu/hr	½	
			390,000 Btu/hr	¾	

2. If answer to above is "No" pressure drop through gas system to any appliance does not exceed 0.5 in. WC when all gas appliances operating at maximum input. Yes ___ No ___

(Record test results.) _____

OIL PIPING SYSTEM - OPTIONAL:

1. If an oil piping system is furnished (other than oil piping furnished by appliance manufacturers), record the following details:

A. Material

B. Size

C. Fittings

D. Method of Securing

E. Details of Assembly

1. List specific appliances below (manufacturer's name, designation, ratings).

A. Water Heater -

B. Furnace -

C. Gas Range -

TESTS TO BE WITNESSED:

Pressure Test of Potable Water Supply System - 500, 501, 502

1. All water piping in the water distribution system is subjected to a pressure test of 100 psi for 15 min before any portion is covered or concealed. Yes ___ No ___

Note - This test is normally conducted twice. Once on piping before it is concealed in floor and again when home is completed. Test may be conducted using air or water pressure. If air pressure is used, water heater MUST be bypassed. Refuse to witness any test where a water heater is subjected to air pressure. An adequate gage must be used with a range of approx 0-150 psi.

Tests of Drain, Waste and Vent System -

1. The waste and vent system shall be tested by one of the following alternate methods for evidence or indication of leakage.

A. Before plumbing fixtures are connected, all of the openings into the piping shall be plugged and the entire piping system subjected to a static water test for 15 min by filling it with water to the top of the highest vent opening. The system shall be watertight at all points.

B. After all fixtures have been installed, the traps filled with water, and the remaining openings securely plugged, the entire system shall be subjected to a 2 in. (manometer) water column air pressure test. If the system loses pressure, leaks may be located with smoke pumped into the system, or with soap suds spread on the exterior of the piping (bubble test).

C. The mobile home shall be in a level position; all fixtures shall be connected, and the entire system shall be filled with water to the rim of the water closet bowl. (Tub and shower drains should be plugged.) After all trapped air has been released, the test shall be sustained for not less than 15 min. The waste piping above the level of the water closet shall be tested and show no indication of leakage when the high fixtures are filled with water and emptied simultaneously to obtain the maximum possible flow in the drain piping.

Yes ___ No ___

2. In addition to the above, the following test must be conducted on all homes:

The plumbing fixtures and connections shall be subjected to a flow test by filling them with water and checking for leaks and retarded flow while they are being emptied. Yes ___ No ___

Note - If manufacturer expresses concern over freezing traps after test, this condition can be avoided by placing ethylene glycol (automotive) antifreeze in each trap after test. Alcohol types will react with piping.

Duct Sizing and Leakage Tests - 500, 501, 502

Note - These tests should be conducted on a home having the smallest, most restrictive duct system and repeated on a home having the most complex system. Also, the test should be run on a complete double-wide home. Only the furnace blower need be operating. If air cooling equipment is to be provided, evaporator coil shall be in place.

Sizing -

1. With the furnace properly installed and blower running at highest heating speed, does static pressure measured in plenum exceed pressure marked on furnace.

Trial No.	Duct Length	Number of Registers	Duct Size	Size of Branches	Furnace S.P.,In.	Duct S.P.,In.	Conform Yes	Conform No
1								
2								
3								
4								
5								

Leakage -

1. Remove furnace from base. With its outlet blocked and blower operating at highest possible speed, measure static pressure in furnace casing.

2. Replace furnace on base and seal all registers. With blower operating at highest possible speed, measure static pressure in the plenum.

Trial No. (+)	(A) S.P. of Furnace	(B) S.P. In Duct	B/A $\geq$ .80 Yes	B/A $\geq$ .80 No
1				
2				
3				
4				
5				

(+) - Same system as described above.

Pressure Test of Gas Piping System -

1. Before appliances are connected, piping systems shall stand a pressure of at least 6 in. mercury or 3 lbs gage for a period of not less than 10 min without showing any drop in pressure. Pressure shall be measured with a mercury manometer or slope gage, or an equivalent device calibrated so as to be read in increments of not greater than 1/10 lb. The source of pressure shall be isolated before the pressure tests are made.

Note - Before a test is begun, the temperature of the air and of the piping should be the same, and constant air temperature should be maintained throughout the test.

2. When appliances are connected to the piping system the entire system shall be pressurized to not less than 10 in. nor more than 14 in. water column and the appliance connections tested for leakage with soapy water.

3. The above tests are conducted on every home equipped with a gas piping system. Yes ___ No ___

10-12-70
Revised: 4-20-71

GENERAL INSTRUCTIONS FOR CONSTRUCTION

DATA SHEETS

1) Provide all information requested

2) Where a "yes" or "no" answer is indicated circle appropriate answer.

3) If the answer is not the one underlined the items are either not in conformance or require additional information be provided.

UNDERWRITERS' LABORATORIES, INC.

DATA SHEET

CONSTRUCTION DATA

Manufacturer _____ MH _____

Factory _____ Project No. _____

Engineer _____ Date _____

Client Representative _____

BASIC INFORMATION FOR FINISHED MOBILE HOME:

1) Width - 10 ft _____ 12 ft _____, Other (Specify) _____

_____

2) Length - Min _____ Max_____

3) Wall Height - 7 ft _____ 7-1/2 ft _____, 8 ft _____,

Other (specify) _____

_____

4) Construction features which vary with width, length, and height. (Describe in general terms here and include specific details under the item in the following data _____

_____

_____

_____

_____

_____

_____

5) Design Zone - North _____, Middle _____,

Hurricane _____.

5a) If for more than one zone, does the construction vary for each zone? (Yes) (No)

5b) If "yes" describe below the variations _____

_____

_____

_____

_____

5c) Obtain copy of zone map and zone designation markings to be applied to mobile home.

5d) Are these markings permanently attached to the mobile home?

(Yes) (No)

5e) Where are they located? _____

_____

_____

6) Support Piers

6a) What is the recommended location? _____

_____

6b) What is the recommended max, spacing? _____

_____

6c) Obtain copy of the recommended pier location and spacing information to be marked on the mobile home.

6d) Are these markings permanently attached to the mobile home?

(Yes) (No)

6e) Where are they located? _____

_____

_____

7) Exit Doors

7a) Are at least two doors provided? (Yes) (No)

7b) Are they remote from each other? (Yes) (No)

7c) Are they at least 24 in. wide? (Yes) (No)

7d) Does the door knob mechanism require only a single simple motion to open a locked and unlocked door from the inside? (Yes) (No)

7e) Are sliding glass doors provided? (Yes) (No)

7f) Can they be opened by a single simple motion from the inside when locked and unlocked? (Yes) (No)

8) Light and Ventilation - Bathroom

8a) Is an openable window provided? (Yes) (No)

8b) Is the glass area of the window at least 10 per cent of the floor area? (Yes) (No)

8c) Is the free ventilation area of the opened window at least 1-1/2 sq ft and also at least 5 per cent of the floor area (include tub, shower, toilet, vanity, etc. in area determinations)? (Yes) (No)

8d) If free area is not 1-1/2 sq ft, is a 25 cfm (Min) exhaust fan provided? (Yes) (No)

9) Light and Ventilation - Kitchen

9a) Is an openable window provided in the kitchen proper? (Yes) (No)

9b) Is the glass area of the window at least ten per cent of the floor area? (Yes) (No)

9c) Is the free ventilation area of the opened window at least 5 per cent of the floor area (include cabinets, appliances, built-in, etc. in area determinations)? (Yes) (No)

9d) Is the free ventilation area of the opened window at least 3 sq ft? (Yes) (No)

9e) If 9d is "no" is a 100 cfm (min) exhaust fan provided? (Yes) (No)

10) Light and Ventilation - All Other Rooms

10a) Is an openable window provided? (Yes) (No)

10b) Is the glass area of windows and doors at least 10 per cent of the floor area of each room? (Yes) (No)

10c) Is the free ventilation area of opened windows (including those in doors) at least 5 per cent of the floor area of each room? (Yes) (No)

(Count rooms which freely communicate with other rooms other than through a doorway, archway, or similar types and size opening as one room for 10a, 10b, and 10c. For area determinations exclude closets. Use back of page for comments.)

11) Ceiling Height

11a) Is the ceiling height in the main structure at least 84 in.? (Yes) (No)

11b) Is the ceiling height in secondary structures (tip-outs, swing-outs, slide-outs, etc.) at least 76 in. when the floor area of the structure is greater than 50 sq ft? (Yes) (No)

12) Condensation Resistance - Walls

12a) Are the exterior walls ventilated? (Yes) (No)

12b) If ventilated, obtain drawing of ventilation system and manufacturers calculations for area of inlets and outlets versus wall area.

12c) If 12a is "No," is a vapor barrier provided on the warm side of the wall (room side)? (Yes) (No)

12d) What is vapor barrier material and how is it secured? _____

_____

13) Condensation Resistance - Ceiling

13a) Is the roof-ceiling cavity ventilated? (Yes) (No)

13b) If ventilated, obtain drawing of ventilation system and manufacturer's calculations for area of inlets and outlets versus area of ceiling.

13c) If 13a is "No," is a vapor barrier provided on the warm side of the ceiling? (Yes) (No)

13d) What is the vapor barrier material? _____

_____

14) Interior Finish Materials

14a) Are all ceiling, walls, and partition covering materials UL labeled and have a 200 (max) flame spread? (Exclude bathtub and shower enclosure walls, cupboards, cabinets, built-ins and minor use of plastic trim, but include walls behind cupboards and built-ins and closet coverings). (Yes) (No)

14b) If 14a is "No," select, cut, mark with client name and product identification, and initial enough of each material to provide sample 20 in. wide and at least 32 ft long. Indicate below the specific make and product designation of each material as marked on the product or shipping document.

Manufacturer _____

Product Designation _____

_____

Manufacturer _____

Product Designation _____

_____

HEAT LOSS

15) Insulation

15a) Describe below the type, thickness, density, and R value of the insulation for

Floor_____

_____

Wall_____

_____

Ceiling_____

_____

Duct_____

16) Heat Duct

16a) What is size and length of duct?_____

_____

16b) Is there insulation between the duct and the outside of the home? (YES) (NO)

16c) If 2b is "Yes" is the air space between the air duct and insulation under it

_____1/2 in. or less?

_____over 1/2 in.?

17) What is manufacturer design outdoor temperature a)with storm sash_____? b) without storm sash_____?

18) Obtain copy of manufacturer heat loss calculations.

IN-TRANSIT FEATURES

19) Chassis Assembly

1a) Obtained detailed drawings of each different chassis construction relative stiffeners and reinforcements verses size of main structural members.

20) Hitch Assembly

20a) Obtained detailed drawings of each design of hitch assembly including the coupling mechanism and the specific details on its attachment to the main structure(chassis).

21) Coupling Mechanism

21a) Is coupler equipped with a manually operated mechanism to prevent disengagement while in operation? (YES) (NO)

21b) Can the coupler be disconnected from the towing vehicle regardless of the angle of the mobile home to the towing vehicle? (YES) (NO)

21c) Is the center of the socket of the coupler not less than 20 in. nor more than 26 in. from ground level? (Measure on level ground with home level) (YES) (NO)

22) Weight Distribution

22a) Obtain total weight and hitch weight information for each length home.

22b) Is the hitch weight 12 to 25% of the weight of the home? (YES) (NO)

22c) Is the running gear located approximately 2/3 of the total chassis length to the rear of the front end? (YES) (NO)

23) Spring and Spring Hangers

23a) Obtain specific details on the spring assemblies and hangers, shackles, bushings, and mounting bolts including load ratings established by the supplier.

24) Axles

24a) Obtain specific details on the axles including the quantity used on each length of home and the suppliers recommended load rating.

25) Hubs and Bearings

25a) Obtain specific details on the hubs and bearings including the suppliers recommended load rating.

26) Wheels, Rims and Tires

26a) Obtain specific details on the wheels, rims, and tires (including size variation with home length) including the suppliers recommended load rating.

27) Brakes

27a) Obtain information on the size and type of brakes, the quantity used on each home, and the suppliers recommended load rating.

27b) Can the towing vehicle and the home stop within 40 ft from an initial speed of 20 mph? (Test shortest and largest home for each brake system). (YES) (NO)

TEST RESULTS

Home Length(ft)	Quantity of Axles With Brakes	Stopping Distance(ft)
1.		
2.		
3.		
4.		
5.		
6.		
7.		

Road Surface_____

Weather Condition_____

28) Low Voltage Brake and Light Wiring

28a) Obtain specifications for, and sample of wiring.

29) Flexural Rigidity

29a) Conduct test on shortest and longest home for each design of chassis(frame) (Consider reinforcements axle locations, etc.)

Fastening Schedule - The following schedule is applicable to all sizes of mobile homes:

Location of Fastener	Type of Fastener	Size (In.)	Quantity
Frame of floor structure			
Floor material to floor system			
Splash shield to floor joist			
Bottom and top plate to studs			
Headers and sills to studs			
Interior paneling to studs			
Interior Partitions to wall, floor and ceiling systems			
Side walls to end walls			
End rails to truss			
End rails to top plate			
Ceiling to truss			
Truss system to walls			
Walls to floor system			
Exterior siding to studs			
Roof materials to side walls			
Vapor barrier to studs - room (warm) side			

NOTE: Please add to above list if any jointing areas of structural members are not indicated.

STRUCTURAL

1) Structural Lumber

1a) Copy below all the markings on all wood being used, indicate actual crossection size, and indicate where it is used. _____

_____

_____

_____

_____

_____

_____

_____

2) Frame

2a) Is steel frame painted or otherwise corrosion protected on all exposed surfaces? (Yes) (No)

2b) Fill in the details on drawing No. A. Use extra drawings for different or alternate designs.

3) Floor System

3a) Fill in details on drawing No. B. Use extra drawings for different or alternate designs.

3b) Describe how the floor system is attached to the frame.

_____

_____

_____

3c) Does the floor system overhang the frame at sides or ends? (Yes) (No)

3d) If 3c is "Yes," describe in detail _____

_____

_____

3e) Are the floor joists notched? (Yes) (No)

3f) If 3e is "Yes," describe notching _____

_____

_____

4) Wall System - Sides and Ends

4a) Fill in details on drawing No. C. Use extra drawings for different or alternate designs. Be sure to cover all sizes of openings in the walls.

4b) Describe how the end walls are attached to the side walls.

_____

_____

_____

4c) Describe how the side and end walls are attached to the floor system. _____

_____

_____

4d) Describe how paneling is attached to walls. _____

_____

_____

4e) What is outer skin material and how thick is it? _____

_____

_____

4f) Describe how outer skin is attached to walls. _____

_____

_____

_____

5) Roof System

5a) If truss is UL labeled record below markings on the label.

_____

_____

5b) Is truss used in accordance with label marking? (Yes) (No)

5c) If "No," describe variation. _____

_____

_____

5d) If truss is not labeled obtain detailed dimensioned drawing (including fastener details) and check it against truss tested.

5e) What is the center to center spacing of the trusses? _____In.

5f) Are the trusses located over the studs? (Yes) (No)

5g) Describe how the trusses are secured to the walls. _____

_____

_____

_____

_____

5h) If a pitched roof or step roof is used, describe construction below and in particular, include details of side members, how ends of trusses are supported and attached, and how load is transferred to the walls. _____

_____

_____

_____

_____

5i) What is roofing material and thickness? _____

_____

5j) Describe how roofing is secured to side walls. _____

_____

_____

5k) Describe any truss stiffeners or reinforcements. _____

_____

_____

6) Partitions

6a) Fill in details on drawing No. D.

6b) Describe how partition is attached to floor, walls, and ceiling. _____

_____

_____

7) Obtain following detailed dimensional drawings.

a) Frame or Frames.

b) Floor system.

c) Typical side and end walls showing openings.

d) Typical partition walls.

e) Truss or rafter (if not UL labeled).

f) Hurricane ties (hurricane zone only). Type of material, thickness, width, attachment to home, location, spacing, end design, etc.

(Indicate kind of materials, size, grade, species, fasteners, spacing, attachment, etc.)

8) Obtain following.

a) Table of window and door sizes and combinations.

b) Sample of staples used and information as to where used.

9) Test at Factory

9a) Spot Load Test on Floor - Floor shall be able to support a 200 lb concentrated load on a 2 in. diameter disc at the most critical location with a maximum deflection not to exceed 1/8 in. relative to the top of the floor joists.

TEST METHOD

Determine the maximum joist spacing to be used. Construct a section of floor consisting of two joists and the structural flooring material. The flooring is to be attached to the joists as in actual production and the joist spacing is to be the maximum spacing previously determined. The sample is to be square and of a size at least 4 in. greater than the dimension of the joist spacing.

(Note: Should the manufacturer desire, the test may be conducted on a full size sample of the floor construction. In this case the section of floor adjacent to a butt joint will usually be the most critical. If the butt joint is reinforced so that the span between supports is essentially reduced other areas may be more critical.)

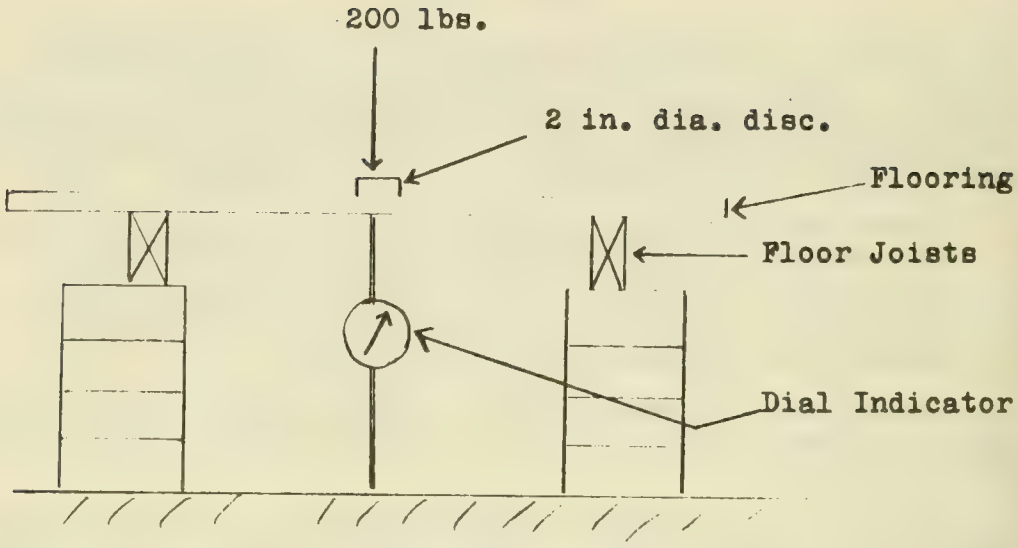
Support the test sample on rigid members. Place a dial indicator under the flooring at the center of the flooring and record the dial reading (D_1).

Place a 2 in. diameter steel disc on the top side of the flooring and directly centered over the dial indicator. Apply a 200 lb load to the disc such that all the load is carried by the disc.

Maintain the load for at least 5 min and record the dial reading (D_2).

Calculate the actual deflection - $D = D_2 - D_1$. (See Fig. 1)

Fig. 1



Flooring _____

Joists - Size and Spacing _____

_____

_____

Test Data (Dial Indicator Reading)

D_1 = _____ In.

D_2 = _____ In.

Actual Deflection $D = D_2 - D_1$

D = _____ - _____ In.

9b) Load Test of Truss or Rafter - Truss and rafter shall (1) be capable of resisting the design load (30 lb/sq ft for the North and Hurricane Zones, 20 lb/sq ft for the Middle Zone - see Fig. 2) without deflecting more than the clear span (L2) divided by 180, (2) not fail or be structurally damaged, under a 75 per cent overload applied for not less than 12 hr and (3) not have a residual deflection more than the clear span (L2) divided by 180 within 12 hr after removal of the total live load.

TEST METHOD

Rafters and trusses may be tested in pairs, sheathed and mounted across supports, or singly in a suitable test facility. When tested in pairs, trusses shall be spaced at the design spacing. Trusses will be mounted on supports having a width consistant with that of the members which they are supported by accurately positioned to the span distance as provided in the design of the mobile home. The top chord may be sheathed with the actual roofing material or with 4 ft long 1/4 in. plywood. Buttin plywood sheets must be separated at least 1/8 in. on at not more than 4 ft spacings. Design roofing shall be attached with actual fasteners. Plywood sheathing shall be nailed with 4d nails not closer than 8 in. on center along each top chord. The bottom chord shall be cross tied with 1 by 2 in. stripping not closer than 24 in. on center running perpendicular between trusses.

Rafter and truss deflections shall be measured at the two quarter points and at midspan by means of a dial indicator. Loading shall be applied to the top chord through a suitable hydraulic system, masonry units or weights to simulate a uniformly distributed load. Load units shall be separated so that arch action does not occur. (See Fig. 3)

Determine the area and the total design load. In calculating the area use the horizontal length dimension of the truss and two times the truss spacing for the width.

Apply the actual dead load to the top of the truss (subtracting for the weight of the 1/4 in. plywood sheathing, if used).

Lock the dial indicator adjustment and record the zero point readings for the quarter and midpoint relative to a stable base for either one or both trusses. Place the dial indicator at the midpoint of a truss.

Apply approximately one-third of the design live load in a uniform manner, wait approximately 10 min and repeat the above until all the design live load is applied. The final deflection reading is to be taken 60 min, after the last load is applied.

Apply a 75 per cent overload following the above procedure but do not take any deflection measurements. The total live load is to be removed 12 hr after the application of the total load.

Measure the residual deflection after removal of the live load. If the deflection exceeds the clear span divided by 180, continue measurements until either the residual deflection is within requirements or 12 hr have elapsed since removal of the live load.

It is important that for the test the end supports for the trusses be rigid members. In order to compensate for any vertical movement in the end support members which would cause an increase in the indicated deflection values being recorded, it is suggested that approximately 100 lb of the live load be applied directly over the bearing surface at each end of the truss assembly before the initial dial readings are taken. As the loading process continues, this load should be evenly distributed.

Fig. 2 TESTS

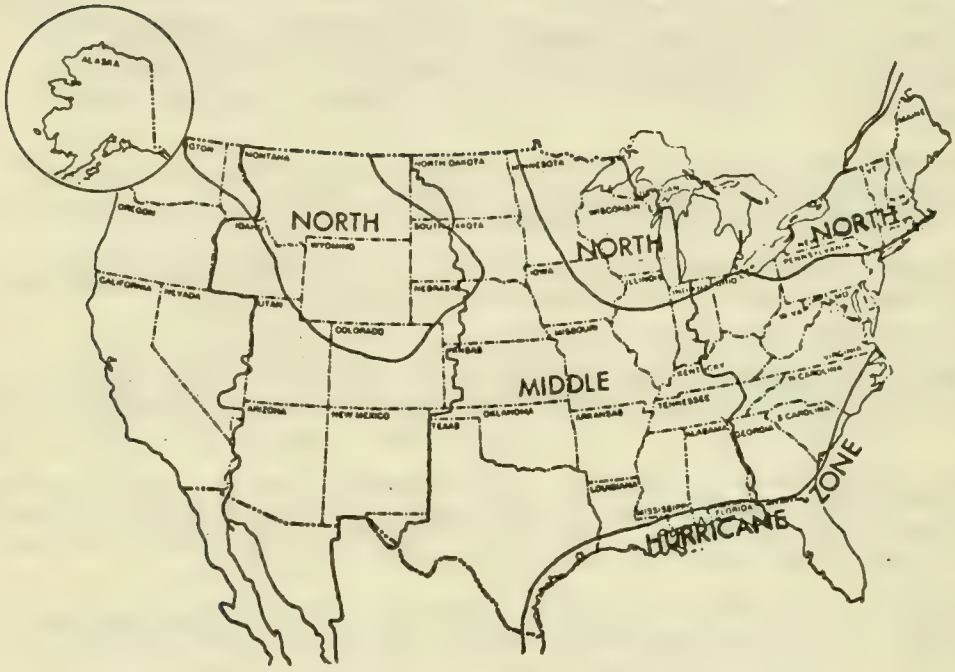
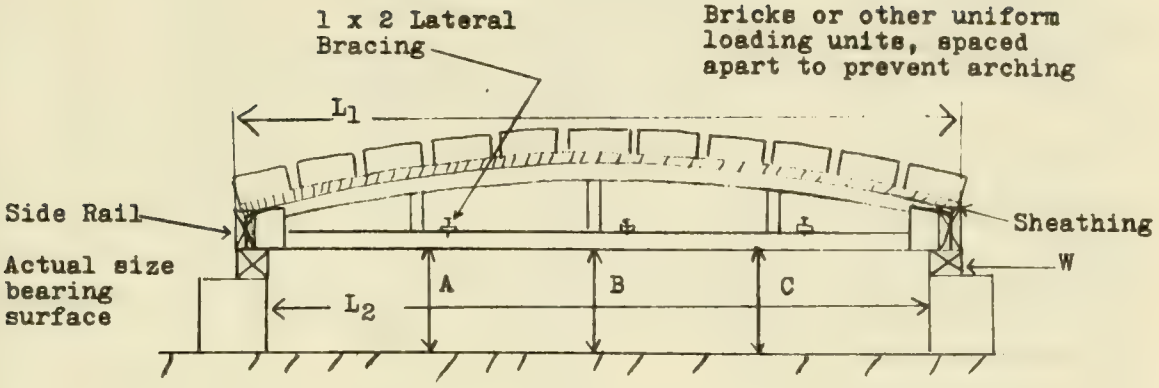


Fig. 3



A and C - Quarter deflection measuring points $(\frac{L_1}{4})$

B - Mid deflection measuring point $(\frac{L_1}{2})$

L_1 = Length, In. = _____ In.

W = Width of wall bearing surface, In. _____ In.

L_2 = Clear Span, In. = L_1 - 2W = _____ In.

S = Truss Spacing, In. = _____ In.

D_1 = Dead load, lb. = Total weight of all ceiling and roof assembly materials except trusses used in span length L_1 and width 2S _____lbs.

D_2 = Design live load, lbs. $\frac{20 \text{ (or } 30) \times L_1 \times 2S}{144}$ = _____lbs.

D_3 = Overload, lb. = 1.75 D_2 = _____lbs.

TRUSS LOAD DEFLECTION DATA

TIME	LOAD	DIAL INDICATOR READING (IN.)		
(Design Load Phase)		A	B	C
_____	Dead Load	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
(Overload Phase)				
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
(Recovery Phase)				
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

(Sketch location of actual loads and indicate type of loads used.)

TRUSS LOAD DATA SHEET

TRUSS SPACING ---- 16 in. O.C. (2 Trusses)

L_1 in.	$L_1/2$ in.	$L_1/4$ in.	Design Live Load 20 psf	30 psf	Overload 1.75 x 20	1.75 x 30
135.00	67.50	33.75	600.00	900.00	1050.00	1575.00
135.50	67.75	33.88	602.22	903.33	1053.89	1580.83
136.00	68.00	34.00	604.44	906.67	1057.78	1586.67
136.50	68.25	34.13	606.67	910.00	1061.67	1592.50
137.00	68.50	34.25	608.89	913.33	1065.56	1598.33
137.50	68.75	34.37	611.11	916.67	1069.44	1604.17
138.00	69.00	34.50	613.33	920.00	1073.33	1610.00
138.50	69.25	34.63	615.56	923.33	1077.22	1615.83
139.00	69.50	34.75	617.78	926.67	1081.11	1621.67
139.50	69.75	34.88	620.00	930.00	1085.00	1627.50
140.00	70.00	35.00	622.22	933.33	1088.89	1633.33
140.50	70.25	35.13	624.44	936.67	1092.78	1639.17
141.00	70.50	35.25	626.67	940.00	1096.67	1645.00
141.50	70.75	35.38	628.89	943.33	1100.56	1650.83
142.00	71.00	35.50	631.11	946.67	1104.44	1656.67
142.50	71.25	35.63	633.33	950.00	1108.33	1662.50
143.00	71.50	35.75	635.56	953.33	1112.22	1668.33
143.50	71.75	35.88	637.78	956.67	1116.11	1674.17
144.00	72.00	36.00	640.00	960.00	1120.00	1680.00
144.50	72.25	36.13	642.22	963.33	1123.89	1685.83

Allowable Deflection = $\frac{\text{Clearspan}}{180} = \frac{L_2}{180}$

For Example: For L_2 of 137 in. - Allowable Deflection = $\frac{137}{180}$ = .761 in.

A119.1

MOBILE HOMES
ENGINEERING VISIT TO FACTORY

The following information has been prepared to assist mobile home manufacturers in preparing for the visit to the factory by our Engineers. This information should be studied by you, your plant foreman, plumbing supervisor, electrical supervisor, and others who may be involved, so that this phase of the investigation can be completed in a smooth and orderly manner. Thus, we will be able to complete our work within a minimum amount of time and with a minimum disruption of your production flow.

Prior to the time of our visit, we urge you to review the requirements contained in ANSI A119.1 and determine conformance with these requirements for the zone for which the mobile home is designed. We will make a detailed study of the design following our visit to the factory.

At the time of our visit, we will need to witness all tests described in ANSI A119.1, and the proper test equipment should be provided by you. The following tests will be required to be conducted on each mobile home as a condition of Labeling.

Dielectric Strength Test - See Par. 24.1, Page 104 Part IV of ANSI A119.1

Gas Piping - See Pars. 5.1.19.1 and 5.1.19.2, Page 75, Part III of ANSI A119.1

Oil Piping - See Par. 5.2.10, Page 76, Part III of ANSI A119.1

Hot and Cold Water Piping - See Par. 14.1, Page 61, Part II of ANSI A119.1

Waste and Vent System - See Par. 14.2, Page 61, Part II of ANSI A119.1

Should you have <u>any</u> questions relative to how these tests are to be conducted, please contact us prior to our visit because if the tests cannot be conducted at the time of our visit, it will be necessary to schedule a second visit to witness these tests. This will result in additional cost to you and could delay the Listing.

Usually the factory visit phase of the investigation follows the following sequence:

1. Our Engineer assigned to lead the project will contact your representative to schedule the factory visit.

2. On arrival at your factory, we will briefly review with your personnel the plan we expect to follow.

3. This is followed by a short tour of the factory to obtain a familiarity with your particular mobile homes.

4. Our Engineer will then work with your man (or men) most experienced in the structural, heating, plumbing, and electrical details.

5. At this time, we will also provide you with an information gathering questionaire covering the physical construction details of the mobile home (frame, floor system, walls, roof, etc.) This questionaire should be filled in and returned to us the same day so that we may check and verify the data the following day. Thus, another of your people should be assigned this project.

6. Shortly after our orientation tour of the factory, we will wish to witness the various tests of the mobile homes as described in ANSI A119.1.

7. As we proceed with our Engineering examination, we will comment to your people on those items not in conformance with the Requirements, and answer any questions they may have on the particular requirements.

8. At the completion of our examination, we will discuss with you any features which we found not in conformance with requirements. These features will be summarized in handwritten notes which you may copy.

At the time of our visit, we will also discuss with you such things as the design of the UL label, the design of the data plate and other required markings, the Follow-Up Service, plus any questions you may have.

A Letter Report will subsequently be sent to you again covering these same features, plus any others which result from a detailed study by others of our Staff of the data developed at the time of our visit to the factory.

Our Letter Report will also reconfirm and itemize what information, drawings, samples, etc. (if any) we need to complete the investigation.

Prior to our visit, we should be provided with the following materials that will be needed in order to complete the investigation.

Detailed drawing of:

A. The Frame assembly (or assemblies)
B. The floor system assembly

C. Typical side wall and end wall assemblies showing maximum size openings used.
D. Toof-ceiling assembly
E. Truss or rafter assembly
F. Typical plumbing arrangements
G. Typical wiring arrangements
H. Electrical load calculations
I. Electric layout drawings (circuits, outlets, etc.)
J. Proposed UL label design
K. Proposed data plate
L. List of all proposed appliances (including electrical rating)

It is highly desirable that this material be provided us two weeks prior to our factory visit, so that we may study it beforehand.

Instructions For Following Drawings

I. Please fill in all requested information on the following sheets.

II. WALL FRAMING - WINDOWS AND DOORS

A. If the basic wall framing construction is identical for all doors and windows, only fill out one typical drawing for the single and double wide windows and door openings. Then simply fill-in the remainder of the opening sizes on the sheets provided.

B. Fill-in all wood framing sheets if any of the following variations occur.

1. Change in the size of stud framing the opening.

2. Change in normal stud spacing around opening.

III. FRAME

A. Complete all drawings depending on the appropriate design. Also indicate any variations which may be used at some later date.

IV. Fastening Schedule

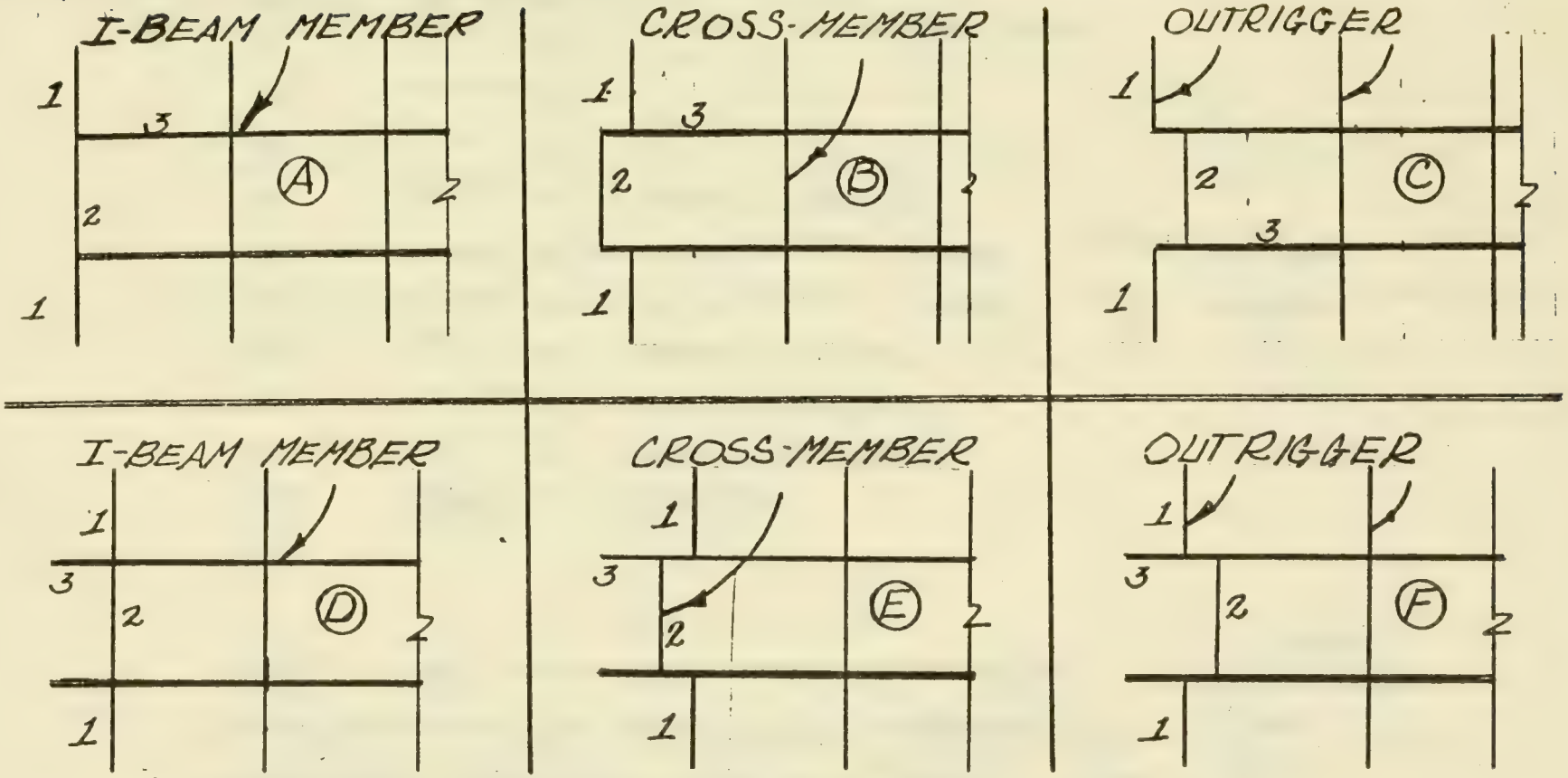
A. Complete the schedule for all the indicated jointing areas.

B. Schedule may be expanded or changed if referenced jointing areas are not appropriate.

TABLE OF TYPICAL OPENINGS

Single Window Openings - Including Bay Window (Rough Openings)	Double Window Openings (Rough Openings)	Door Openings - Including Sliding Glass Doors (Rough Openings)
WIDTH X HEIGHT INS.	WIDTH X HEIGHT INS.	WIDTH X HEIGHT INS.
1. _____	1. _____	1. _____
2. _____	2. _____	2. _____
3. _____	3. _____	3. _____
4. _____	4. _____	4. _____
5. _____	5. _____	5. _____
6. _____	6. _____	6. _____
7. _____		
8. _____		
9. _____		
10. _____		
11. _____		
12. _____		

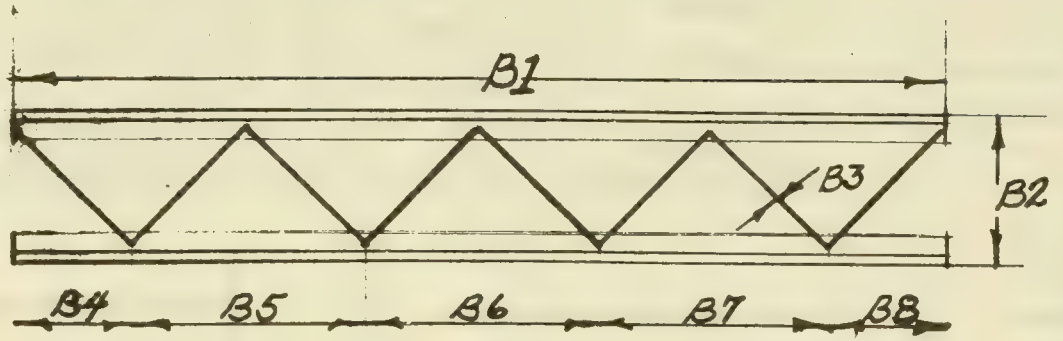
TYPICAL REAR FRAMING METHODS

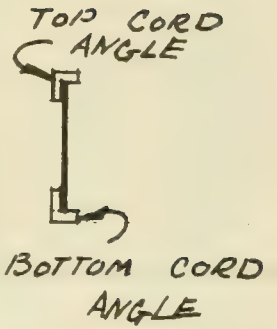


INSTRUCTIONS ---- CIRCLE OR FILL IN WHERE REQUIRED

. WHICH TYPICAL CONSTRUCTION IS USED - A,B,C,D,E,F, (CIRCLE)
(IF NONE OF ABOVE ARE BEING USED, INDICATE CLOSEST DESIGN AND ALTER DRAWING)
. IS MEMBER NO. 1 AN OUTRIGGER, CROSS MEMBER, I-BEAM, _____
. WHAT IS C/C SPACING BETWEEN MEMBER NO.1 AND END OF FRAME _____ IN.
. IS MEMBER NO.2 AN OUTRIGGER, CROSS MEMBER, I-BEAM, _____
. WHAT IS C/C SPACING BETWEEN MEMBER NO.2 AND END OF FRAME _____ IN.
. IS MEMBER NO. 3 AN OUTRIGGER, CROSS MEMBER, I-BEAM _____
. WHAT IS C/C SPACING BETWEEN MEMBER NO. 3 AND END OF FRAME _____ IN.
. DOES WOOD FRAME OVERLAP ANY STEEL MEMBER-YES, NO, WHAT MEMBER _____ HOW MUCH _____

DWG. No. A-1 MAIN CROSS MEMBER





ITEM	DIMENSION	EXPLANATION
B1	_____IN.	LENGTH OF CROSS MEMBER
B2	_____IN.	DEPTH OF CROSS MEMBER
B3	_____IN.	DIAMETER OF WEB ROD

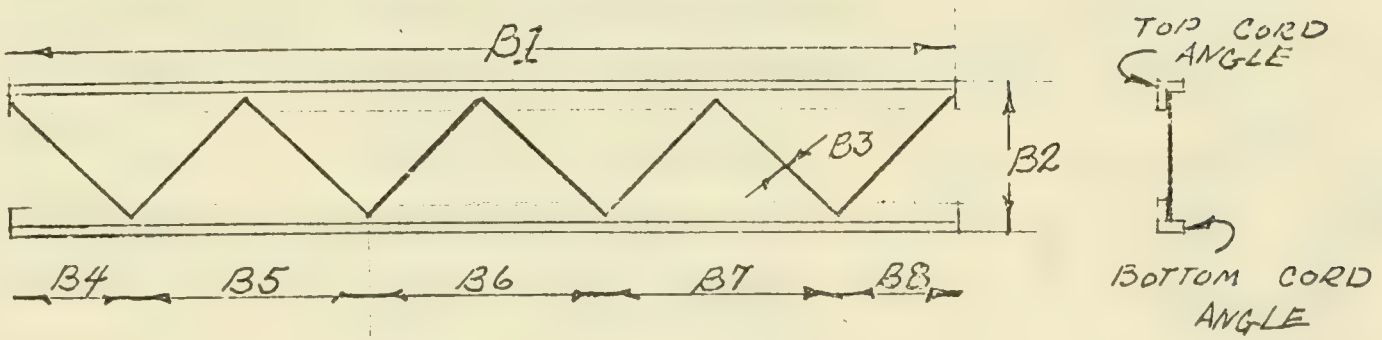
SIZE OF TOP CHORD ANGLE WIDTH _____ DEPTH _____ THICKNESS _____

SIZE OF BOTTOM CHORD ANGLE WIDTH _____ DEPTH _____ THICKNESS _____

B4	_____IN.	LOCATION OF WEB RODS
B5	_____IN.	" " " "
B6	_____IN.	" " " "
B7	_____IN.	" " " "
B8	_____IN.	" " " "

DWG. No. A-2

FRONT AND REAR CROSS MEMBER



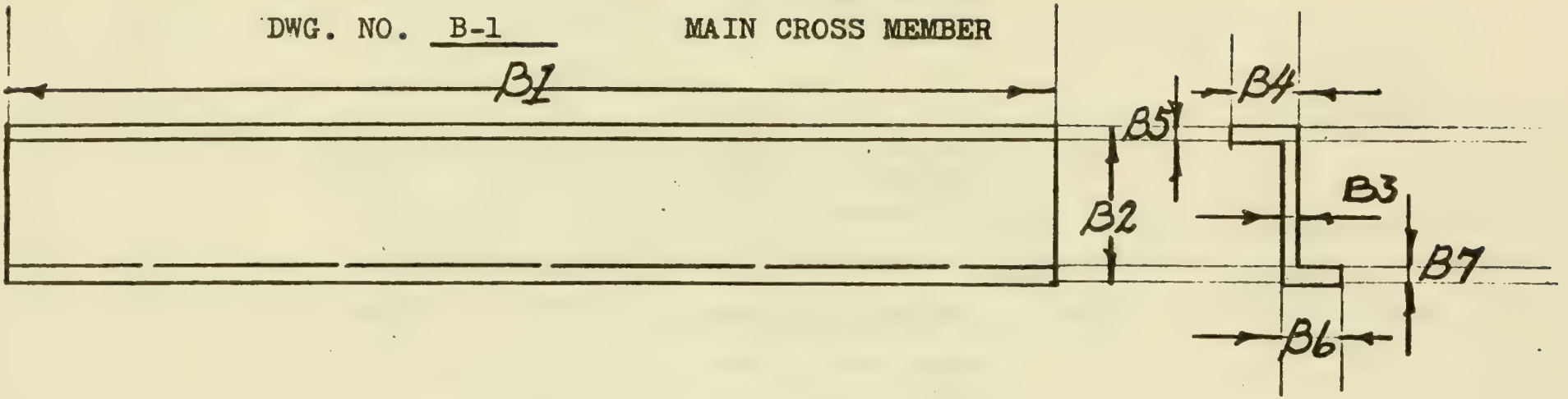
ITEM	DIMENSION	EXPLANATION
B1	_____IN.	LENGTH OF CROSS MEMBER
B2	_____IN.	DEPTH OF CROSS MEMBER
B3	_____IN.	DIAMETER OF WEB ROD

SIZE OF TOP CHORD ANGLE WIDTH _____ DEPTH _____ THICKNESS _____

SIZE OF BOTTOM CHORD ANGLE WIDTH _____ DEPTH _____ THICKNESS _____

B4	_____IN.	LOCATION OF WEB RODS
B5	_____IN.	" " " "
B6	_____IN.	" " " "
B7	_____IN.	" " " "
B8	_____IN.	" " " "

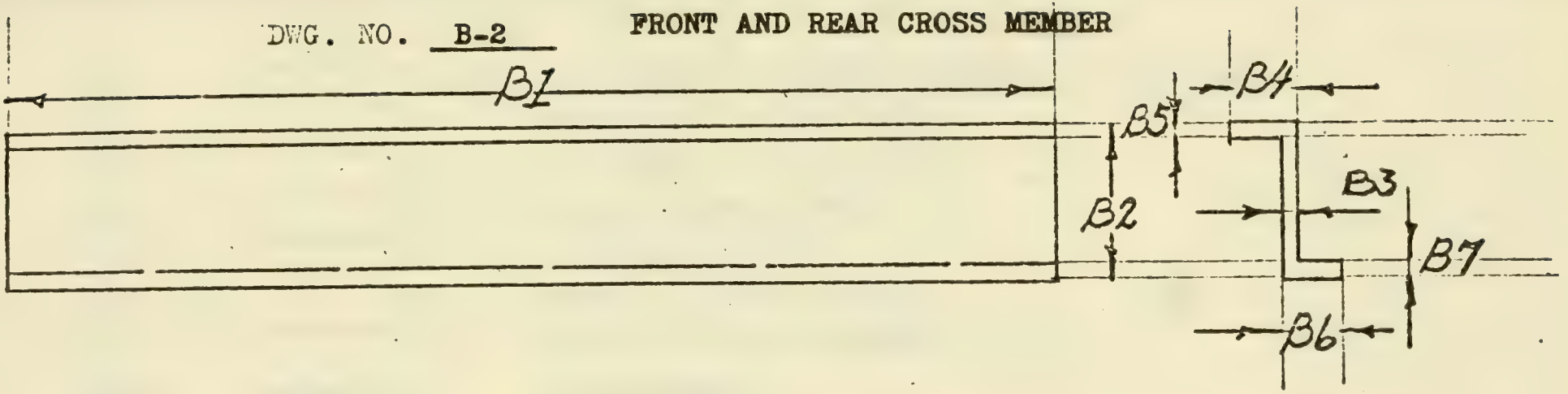
DWG. NO. B-1 MAIN CROSS MEMBER



ITEM	DIMENSION	EXPLANATION
B1	_____IN.	LENGTH OF CROSS MEMBER
B2	_____IN.	DEPTH OF CROSS MEMBER
B3	_____IN.	THICKNESS OF WEB
B4	_____IN.	WIDTH OF TOP FLANGE
B5	_____IN.	THICKNESS OF TOP FLANGE
B6	_____IN.	WIDTH OF BOTTOM FLANGE
B7	_____IN.	THICKNESS OF BOTTOM FLANGE

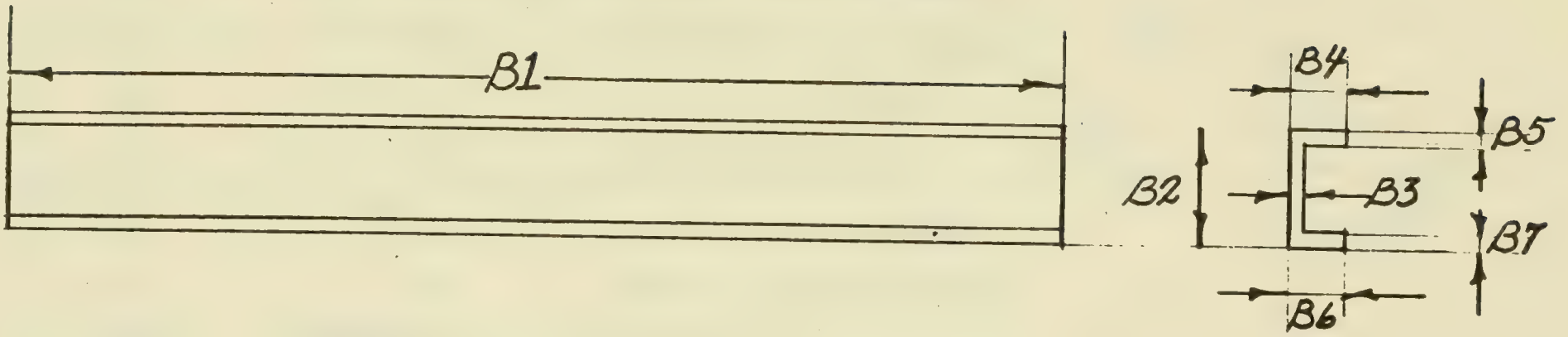
DWG. NO. B-2

FRONT AND REAR CROSS MEMBER



ITEM	DIMENSION	EXPLANATION
B1	_____IN.	LENGTH OF CROSS MEMBER
B2	_____IN.	DEPTH OF CROSS MEMBER
B3	_____IN.	THICKNESS OF WEB
B4	_____IN.	WIDTH OF TOP FLANGE
B5	_____IN.	THICKNESS OF TOP FLANGE
B6	_____IN.	WIDTH OF BOTTOM FLANGE
B7	_____IN.	THICKNESS OF BOTTOM FLANGE

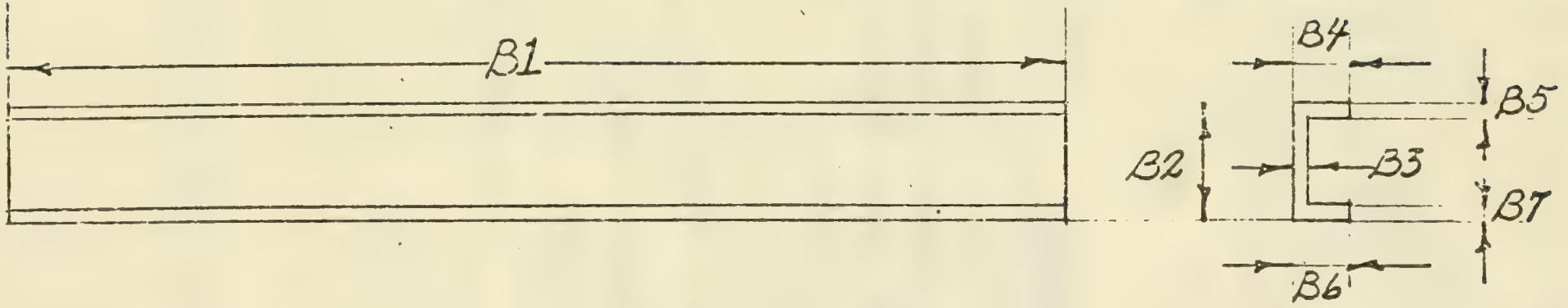
DWG. NO. C-1 MAIN CROSS MEMBER



ITEM	DIMENSION	EXPLANATION
B1	_____IN.	LENGTH OF CROSS MEMBER
B2	_____IN.	DEPTH OF CROSS MEMBER
B3	_____IN.	THICKNESS OF WEB
B4	_____IN.	WIDTH OF TOP FLANGE
B5	_____IN.	THICKNESS OF TOP FLANGE
B6	_____IN.	WIDTH OF BOTTOM FLANGE
B7	_____IN.	THICKNESS OF BOTTOM FLANGE

DWG. NO. C-2

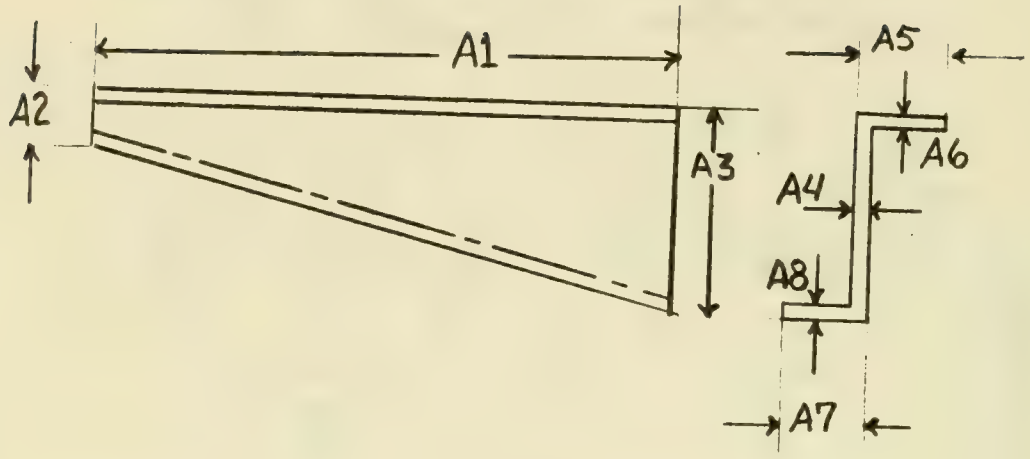
FRONT AND REAR CROSS MEMBER



ITEM	DIMENSION	EXPLANATION
B1	_____IN.	LENGTH OF CROSS MEMBER
B2	_____IN.	DEPTH OF CROSS MEMBER
B3	_____IN.	THICKNESS OF WEB
B4	_____IN.	WIDTH OF TOP FLANGE
B5	_____IN.	THICKNESS OF TOP FLANGE
B6	_____IN.	WIDTH OF BOTTOM FLANGE
B7	_____IN.	THICKNESS OF BOTTOM FLANGE

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DWG. No. D-1 OUTRIGGERS

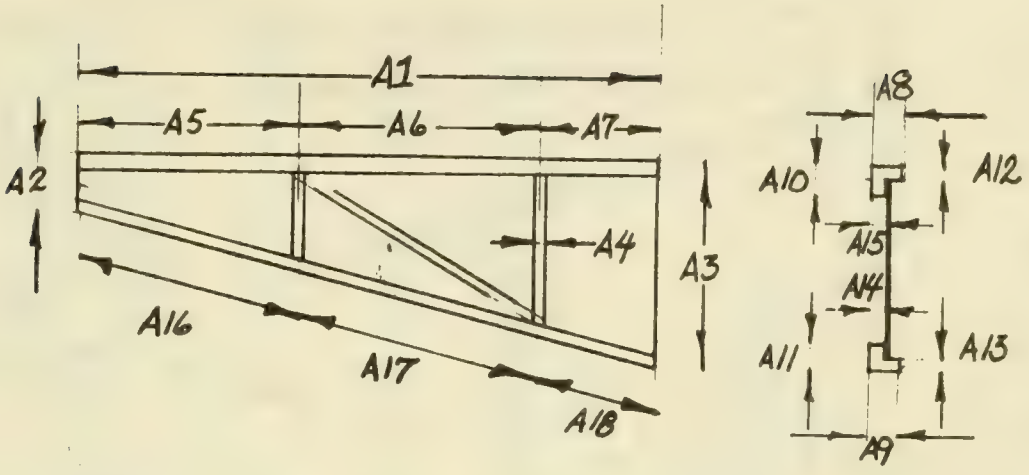


ITEM	DIMENSION	EXPLANATION
A1	_____ In.	LENGTH OF OUTRIGGER
A2	_____ In.	DEPTH OF OUTRIGGER AT EDGE OF MOBILE HOME
A3	_____ In.	DEPTH OF OUTRIGGER AT LONGITUDINAL I-BEAM
A4	_____ In. or gage	THICKNESS OF WEB OF OUTRIGGER
A5	_____ In.	WIDTH OF TOP FLANGE
A6	_____ In. or gage	THICKNESS OF TOP FLANGE
A7	_____ In.	WIDTH OF BOTTOM FLANGE
A8	_____ In. or gage	THICKNESS OF BOTTOM FLANGE

TYPE OF CONNECTION BETWEEN OUTRIGGER AND I-BEAM

_____

DWG. NO. E-1 Outriggers

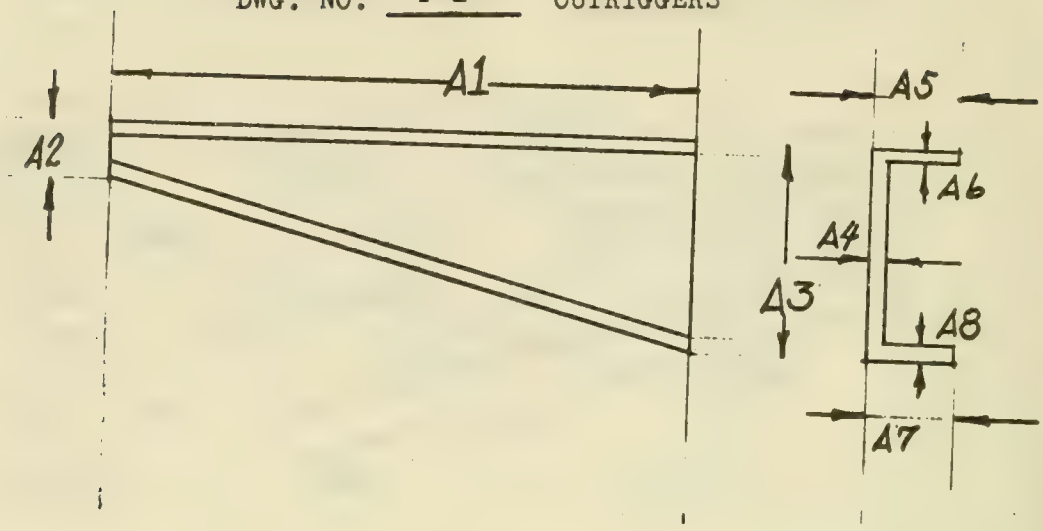


ITEM	DIMENSION	EXPLANATION
A1	_____In.	LENGTH OF OUTRIGGERS
A2	_____In.	DEPTH OF OUTRIGGER AT EDGE OF MOBILE HOME
A3	_____In.	DEPTH OF OUTRIGGER AT LONGITUDINAL I-BEAM
A4	_____In.	DIAMETER OF WEB ROD
A5	_____In.	LOCATIONS OF WEB ROD
A6	_____In.	LOCATION OF WEB ROD
A7	_____In.	LOCATION OF WEB ROD
A16	_____In.	LOCATION OF WEB ROD
A17	_____In.	LOCATION OF WEB ROD
A18	_____In.	LOCATION OF WEB ROD
SIZE CHORD OF TOP ANGLE		
A8	_____In.	TOP CHORD WIDTH
A10	_____In.	VERTICAL TOP CHORD WIDTH
A12	_____In.	TOP CHORD THICKNESS
A15	_____In.	VERTICAL TOP CHORD THICKNESS
SIZE CHORD OF BOTTON ANGLE		
A9	_____In.	BOTTOM CHORD WIDTH
A11	_____In.	VERTICAL BOTTOM CHORD WIDTH
A13	_____In.	BOTTOM CHORD THICKNESS
A14	_____In.	VERTICAL BOTTOM CHORD THICKNESS

TYPE OF CONNECTION BETWEEN OUTRIGGER AND I-BEAM _____

Note: If the above figure needs to be altered to match present design simply change figure by drawing in any alterations.

DWG. NO. F-1 OUTRIGGERS

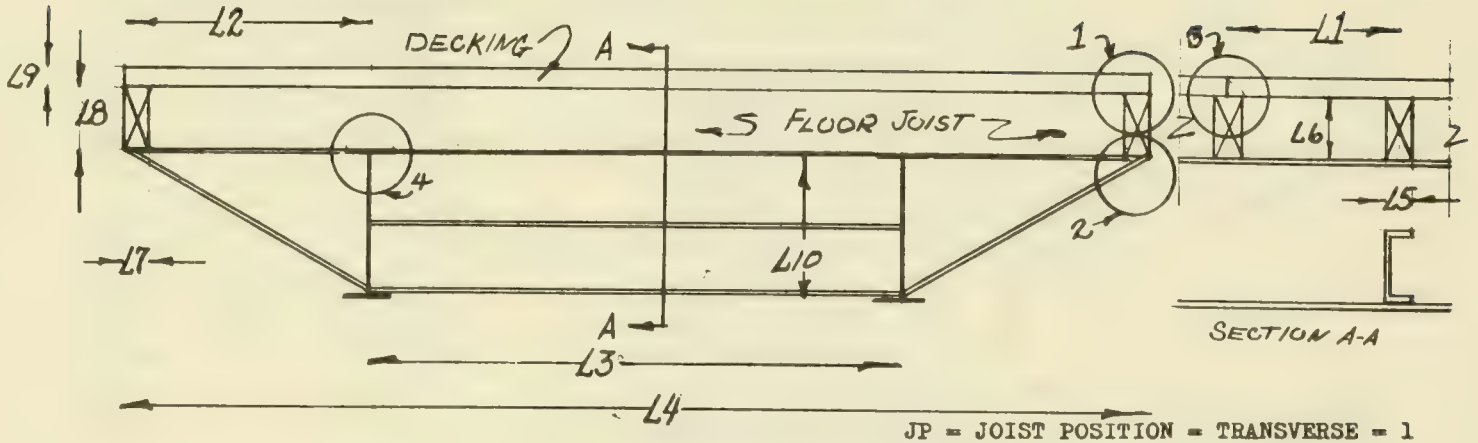


ITEM	DIMENSION	EXPLANATION
A1	_____IN.	LENGTH OF OUTRIGGER
A2	_____IN.	DEPTH OF OUTRIGGER AT EDGE OF MOBILE HOME
A3	_____IN.	DEPTH OF OUTRIGGER AT LONGITUDINAL I-BEAM
A4	_____IN. or gage	THICKNESS OF WEB OF OUTRIGGER
A5	_____IN.	WIDTH OF TOP FLANGE
A6	_____IN. or gage	THICKNESS OF TOP FLANGE
A7	_____IN.	WIDTH OF BOTTOM FLANGE
A8	_____IN. or gage	THICKNESS OF BOTTOM FLANGE

TYPE OF CONNECTION BETWEEN OUTRIGGER AND I-BEAM _____

DWG. NO. G-1

FLOOR SYSTEM TRANSVERSE JOISTS



JP = JOIST POSITION = TRANSVERSE = 1

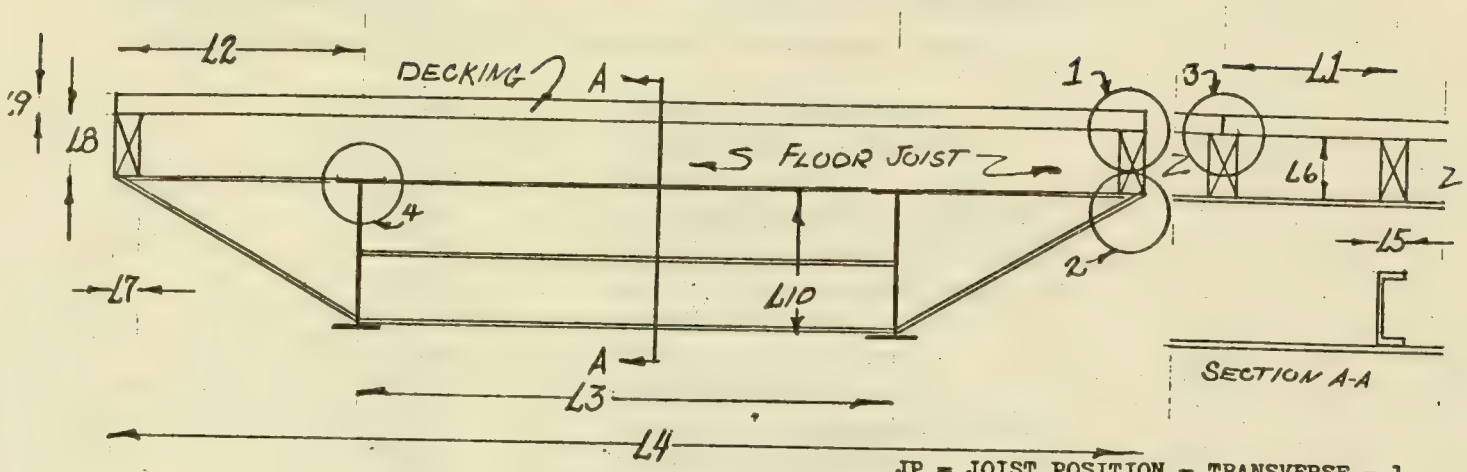
ITEM	DIMENSION	EXPLANATION
L1	_____In.	SPACING OF JOISTS (IF IT VARIES INDICATE ALL SPACINGS AND ENTER MAX. AS L_1)
L2	_____In.	LENGTH OF OUTRIGGERS
L3	_____In.	SPACING OF LONGITUDINAL I-BEAM
L4	_____In.	WIDTH OF MOIBLE HOME
L5	_____In.	WIDTH OF FLOOR JOIST
L6	_____In.	THICHNESS OF FLOOR JOIST
L7	_____In.	WIDTH OF LONGITUDINAL EDGE JOIST
L8	_____In.	THICKNESS OF LONGITUDINAL EDGE JOIST
L9	_____In.	THICKNESS OF DECKING MATERIAL
L10	_____In.	DEPTH OF I-BEAM
	_____In.	FLANGE (WIDTH OF I-BEAM)
	_____In.	SPACING OF OUTRIGGERS

1 through 5 enter indicated circled areas on fastening schedule.

DECKING - MANUFACTURER _____ DESIGNATION _____

DWG. NO. G-2

FLOOR SYSTEM TRANSVERSE JOISTS



JP = JOIST POSITION - TRANSVERSE = 1

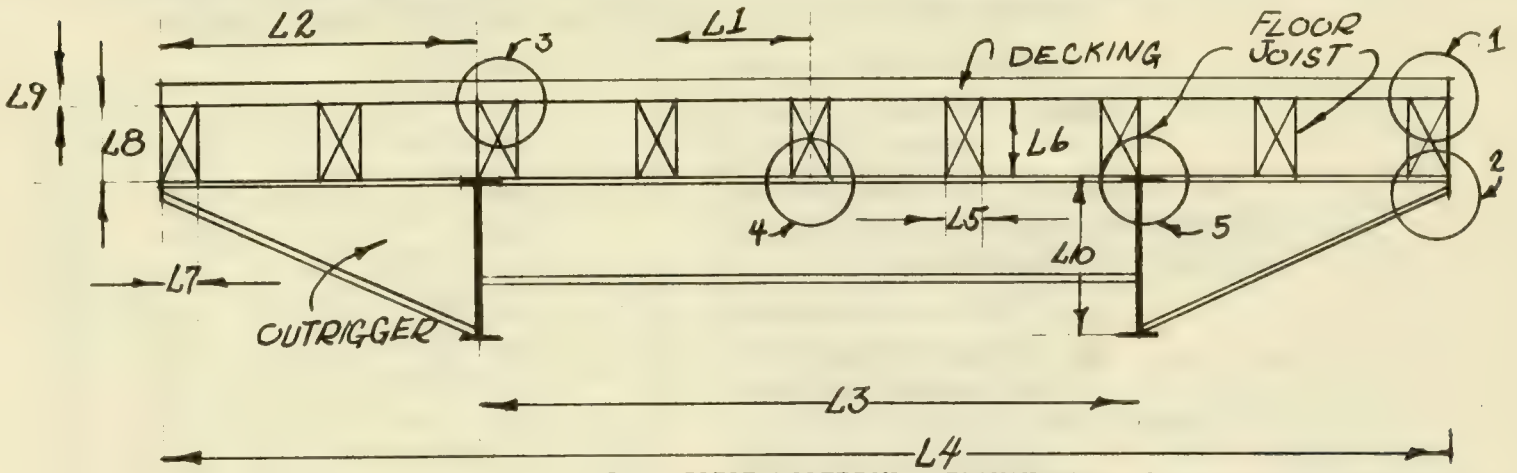
ITEM	DIMENSION	EXPLANATION
L1	_____In.	SPACING OF JOISTS (IF IT VARIES INDICATE ALL SPACINGS AND ENTER MAX. AS L_1)
L2	_____In.	LENGTH OF OUTRIGGERS
L3	_____In.	SPACING OF LONGITUDINAL I-BEAM
L4	_____In.	WIDTH OF MOIBLE HOME
L5	_____In.	WIDTH OF FLOOR JOIST
L6	_____In.	THICHNESS OF FLOOR JOIST
L7	_____In.	WIDTH OF LONGITUDINAL EDGE JOIST
L8	_____In.	THICKNESS OF LONGITUDINAL EDGE JOIST
L9	_____In.	THICKNESS OF DECKING MATERIAL
L10	_____In.	DEPTH OF I-BEAM
	_____In.	FLANGE (WIDTH OF I-BEAM)
	_____In.	SPACING OF OUTRIGGERS

1 through 5 enter indicated circled areas on fastening schedule.

DECKING - MANUFACTURER _____ DESIGNATION _____

DWG. NO. H-1

TYPICAL LONGITUDINAL JOISTS (Floor System)



JP = JOIST POSITION = TRANSVERSE = 1

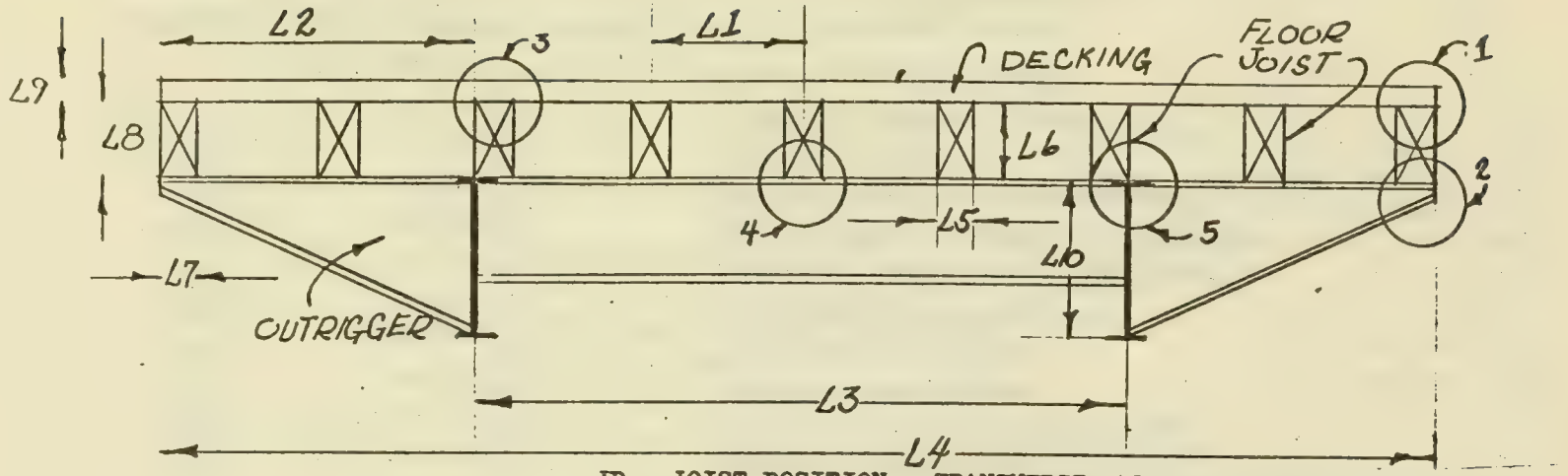
ITEM	DIMENSION	EXPLANATION
L1	_____ In.	SPACING OF JOISTS (IF IT VARIES INDICATE ALL SPACINGS AND ENTER MAX. AS L_1).
L2	_____ In.	LENGTH OF OUTRIGGER
L3	_____ In.	SPACING OF LONGITUDINAL I-BEAM
L4	_____ In.	WIDTH OF MOBILE HOME
L5	_____ In.	WIDTH OF FLOOR JOIST
L6	_____ In.	THICKNESS OF FLOOR JOIST
L7	_____ In.	WIDTH OF LONGITUDINAL EDGE JOIST
L8	_____ In.	THICKNESS OF LONGITUDINAL EDGE JOIST
L9	_____ In.	DECKING MATERIAL (THICKNESS OF)
L10	_____ In.	DEPTH OF I-BEAM
	_____ In.	FLANGE (WIDTH OF I-BEAM)
	_____ In.	SPACING OF OUTRIGGERS

1 through 5 enter indicated circled areas on fastening schedule

DECKING - MANUFACTURER _____ DESIGNATION _____

DWG. NO. H-2

TYPICAL LONGITUDINAL JOISTS (Floor System).



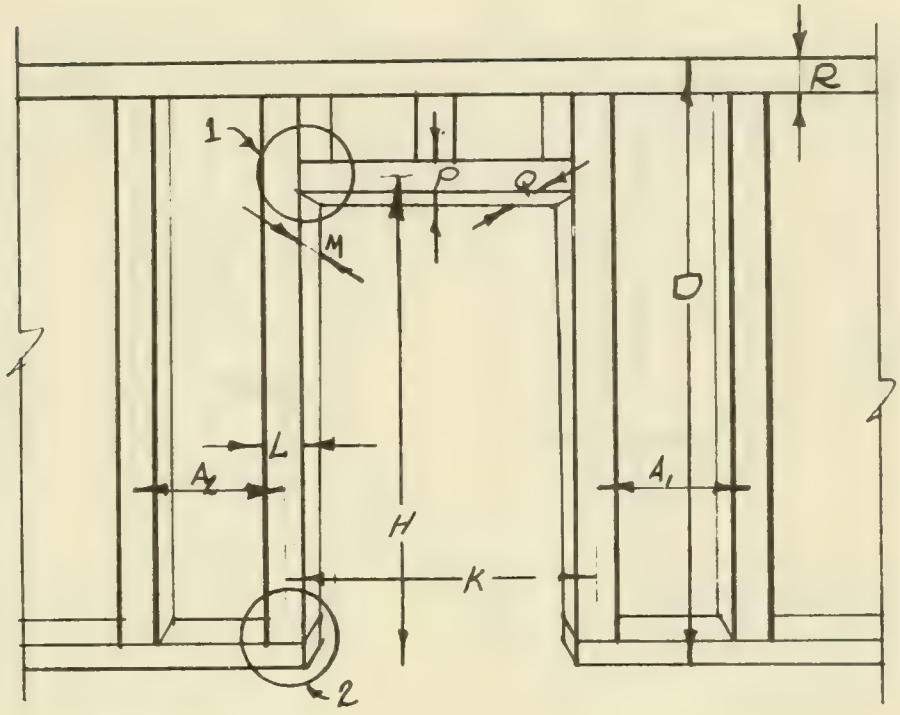
JP = JOIST POSITION = TRANSVERSE = 1

ITEM	DIMENSION	EXPLANATION
L1	_____ In.	SPACING OF JOISTS (IF IT VARIES INDICATE ALL SPACINGS AND ENTER MAX. AS L_1).
L2	_____ In.	LENGTH OF OUTRIGGER
L3	_____ In.	SPACING OF LONGITUDINAL I-BEAM
L4	_____ In.	WIDTH OF MOBILE HOME
L5	_____ In.	WIDTH OF FLOOR JOIST
L6	_____ In.	THICKNESS OF FLOOR JOIST
L7	_____ In.	WIDTH OF LONGITUDINAL EDGE JOIST
L8	_____ In.	THICKNESS OF LONGITUDINAL EDGE JOIST
L9	_____ In.	DECKING MATERIAL (THICKNESS OF)
L10	_____ In.	DEPTH OF I-BEAM
	_____ In.	FLANGE (WIDTH OF I-BEAM)
	_____ In.	SPACING OF OUTRIGGERS

1 through 5 enter indicated circled areas on fastening schedule

DECKING - MANUFACTURER _____ DESIGNATION _____

DWG. NO. I-1 TYPICAL EXTERIOR DOOR OPENINGS

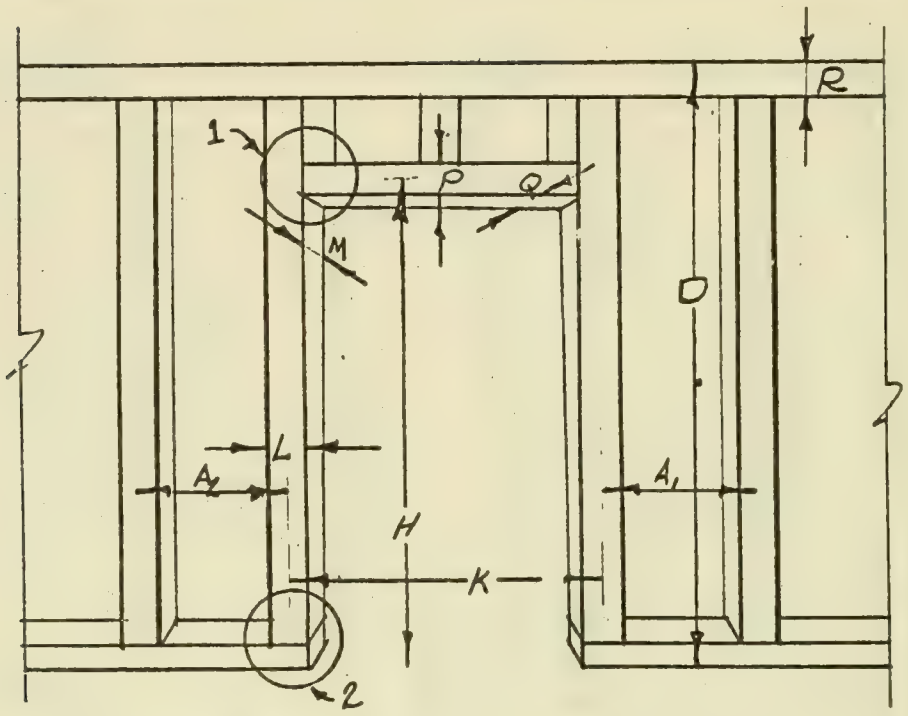


STUD BESIDE OPENING

ITEM	DIMENSION	EXPLANATION
H	_____IN.	HEIGHT OF OPENING C/C MEASUREMENT
K	_____IN.	WIDTH OF OPENING C/C MEASUREMENT
L	_____IN.	TOTAL WIDTH OF STUD (OR STUDS) BESIDE OPENING
M	_____IN.	THICKNESS OF STUD (OR STUDS) BESIDE OPENING
A1/A2	_____IN.	SPACING OF STUD NEXT TO DOOR C/C MEASUREMENT (INDICATE GREATEST STUD SPACING ON EITHER SIDE OF WINDOW)
D	_____IN.	HEIGHT OF WALL
	HEADER OVER OPENING	
P	_____IN.	TOTAL WIDTH OF HEADER
Q	_____IN.	THICKNESS OF HEADER
	TOP PLATE	
R	_____IN.	TOTAL WIDTH OF PLATE
S	_____IN.	TOTAL THICKNESS OF PLATE

Enter indicated circled areas on fastening schedule

DWG. NO. I-2 TYPICAL EXTERIOR DOOR OPENINGS



STUD BESIDE OPENING

ITEM	DIMENSION	EXPLANATION
H	_____IN.	HEIGHT OF OPENING C/C MEASUREMENT
K	_____IN.	WIDTH OF OPENING C/C MEASUREMENT
L	_____IN.	TOTAL WIDTH OF STUD (OR STUDS) BESIDE OPENING
M	_____IN.	THICKNESS OF STUD (OR STUDS) BESIDE OPENING
A_1/A_2	_____IN.	SPACING OF STUD NEXT TO DOOR C/C MEASUREMENT (INDICATE GREATEST STUD SPACING ON EITHER SIDE OF WINDOW)
D	_____IN.	HEIGHT OF WALL

HEADER OVER OPENING

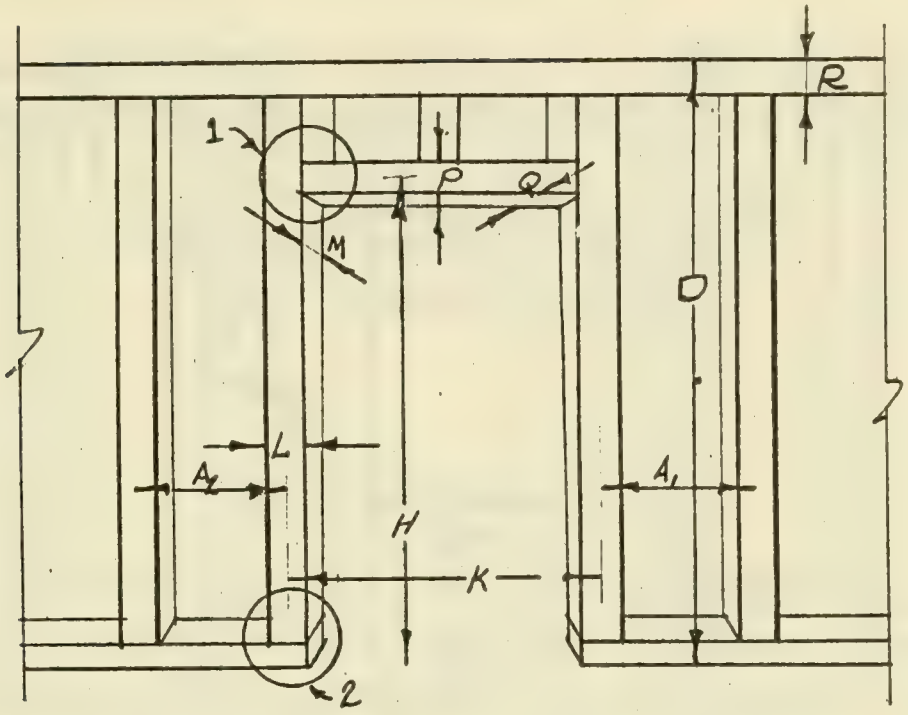
P	_____IN.	TOTAL WIDTH OF HEADER
Q	_____IN.	THICKNESS OF HEADER

TOP PLATE

R	_____IN.	TOTAL WIDTH OF PLATE
S	_____IN.	TOTAL THICKNESS OF PLATE

Enter indicated circled areas on fastening schedule

DWG. NO. I-3 TYPICAL EXTERIOR DOOR OPENINGS



STUD BESIDE OPENING

ITEM	DIMENSION	EXPLANATION
H	_____IN.	HEIGHT OF OPENING C/C MEASUREMENT
K	_____IN.	WIDTH OF OPENING C/C MEASUREMENT
L	_____IN.	TOTAL WIDTH OF STUD (OR STUDS) BESIDE OPENING
M	_____IN.	THICKNESS OF STUD (OR STUDS) BESIDE OPENING
A_1/A_2	_____IN.	SPACING OF STUD NEXT TO DOOR C/C MEASUREMENT (INDICATE GREATEST STUD SPACING ON EITHER SIDE OF WINDOW)
D	_____IN.	HEIGHT OF WALL

HEADER OVER OPENING

P	_____IN.	TOTAL WIDTH OF HEADER
Q	_____IN.	THICKNESS OF HEADER

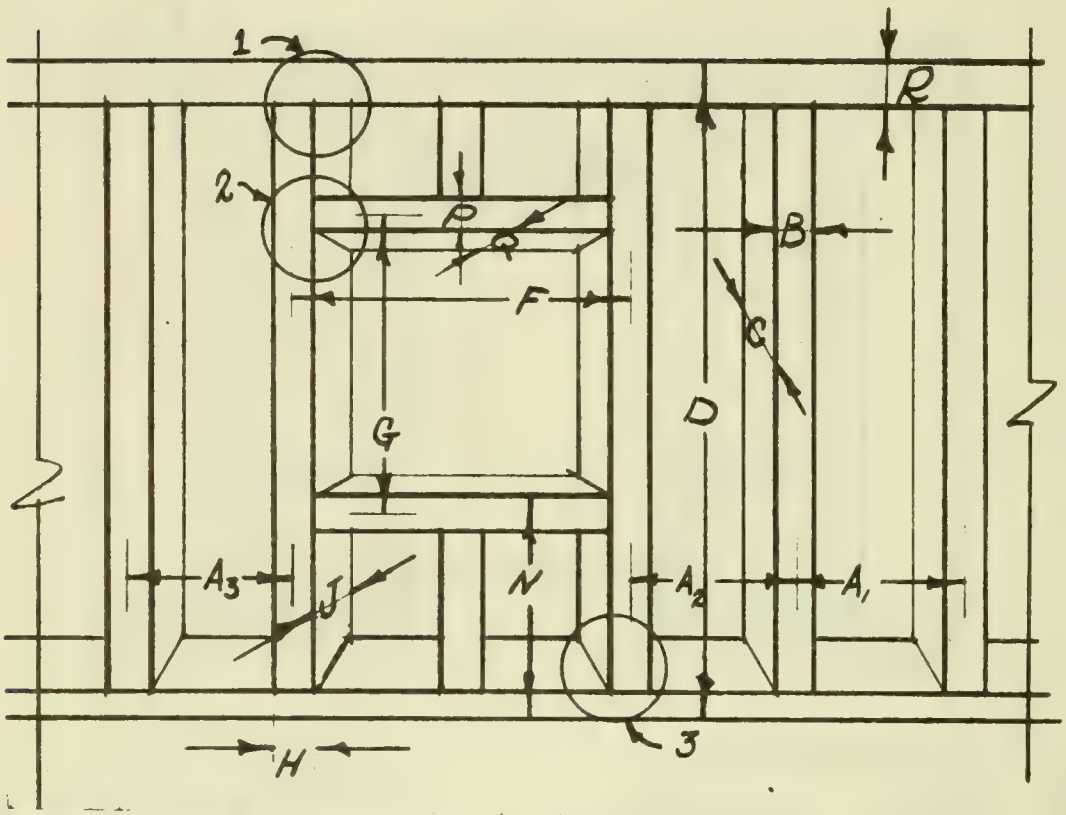
TOP PLATE

R	_____IN.	TOTAL WIDTH OF PLATE
S	_____IN.	TOTAL THICKNESS OF PLATE

Enter indicated circled areas on fastening schedule

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DWG. NO. J-1 SINGLE WINDOW OPENINGS



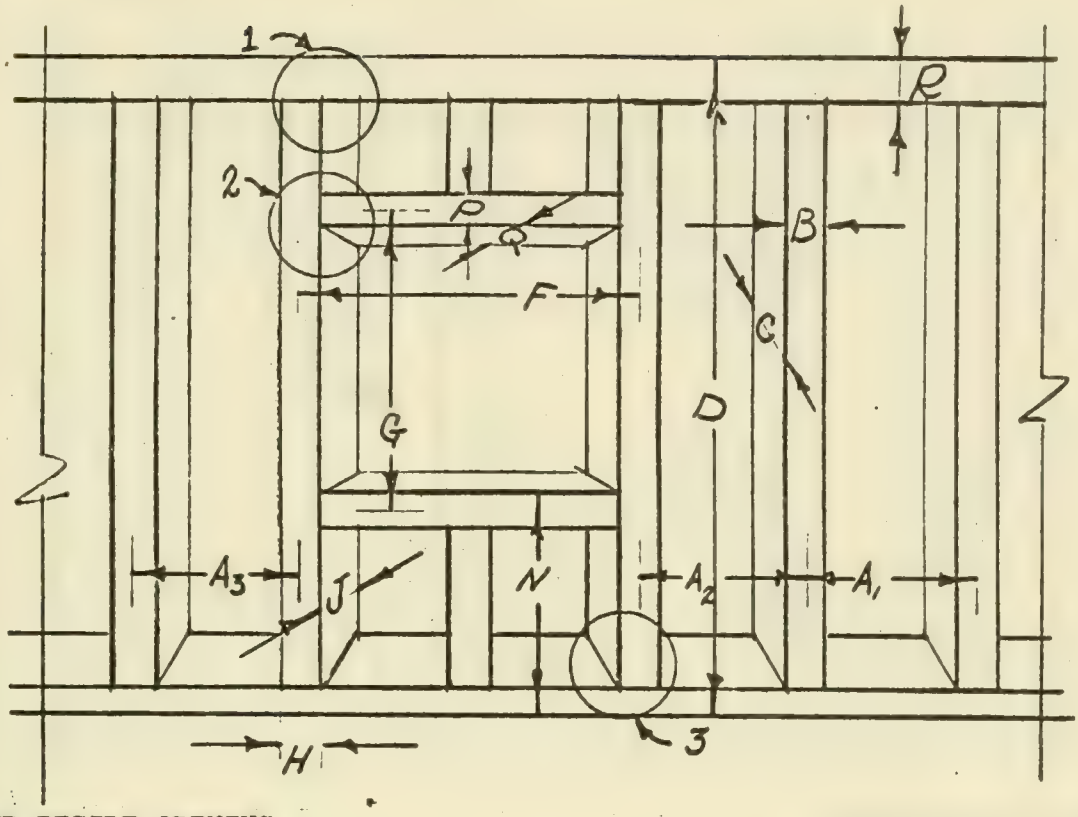
STUD BESIDE OPENING

ITEM	DIMENSION	EXPLANATION
F	_____ In.	WIDTH OF OPENING C/C MEASUREMENT
G	_____ In.	HEIGHT OF OPENING C/C MEASUREMENT
H	_____ In.	TOTAL WIDTH OF STUD (OR STUDS) BESIDE OPENING
J	_____ In.	THICKNESS OF STUD (OR STUDS) BESIDE OPENING
A1	_____ In.	NORMAL STUD SPACING C/C MEASUREMENT
A2	_____ In.	STUD SPACING IF NOT THE SAME AS A1 C/C MEASUREMENT
B	_____ In.	WIDTH OF TYPICAL STUD
C	_____ In.	THICKNESS OF TYPICAL STUD
D	_____ In.	HEIGHT OF TYPICAL STUD

HEADER OVER OPENING

N	_____ In.	HEIGHT OF SILL ABOVE FLOOR
P	_____ In.	WIDTH OF HEADER
Q	_____ In.	THICKNESS OF HEADER

DWG. NO. J-2 SINGLE WINDOW OPENINGS



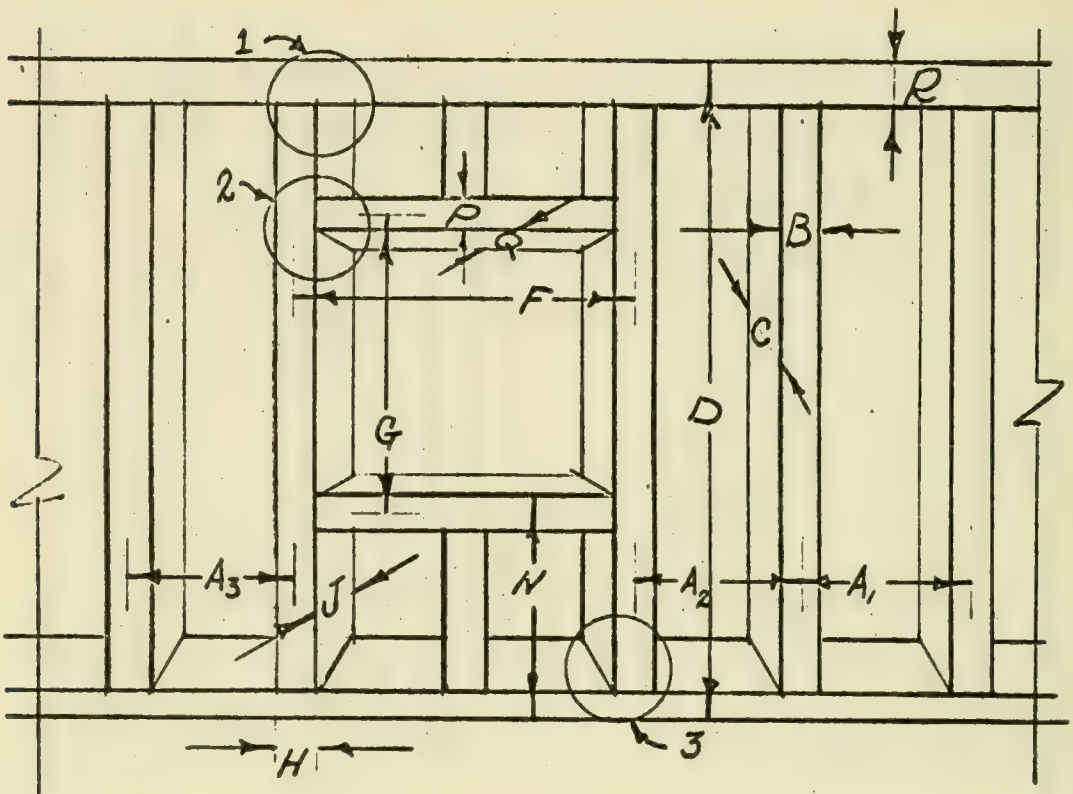
STUD BESIDE OPENING

ITEM	DIMENSION	EXPLANATION
F	_____ In.	WIDTH OF OPENING C/C MEASUREMENT
G	_____ In.	HEIGHT OF OPENING C/C MEASUREMENT
H	_____ In.	TOTAL WIDTH OF STUD (OR STUDS) BESIDE OPENING
J	_____ In.	THICKNESS OF STUD (OR STUDS) BESIDE OPENING
A1	_____ In.	NORMAL STUD SPACING C/C MEASUREMENT
A2	_____ In.	STUD SPACING IF NOT THE SAME AS A1 C/C MEASUREMENT
B	_____ In.	WIDTH OF TYPICAL STUD
C	_____ In.	THICKNESS OF TYPICAL STUD
D	_____ In.	HEIGHT OF TYPICAL STUD

HEADER OVER OPENING

N	_____ In.	HEIGHT OF SILL ABOVE FLOOR
P	_____ In.	WIDTH OF HEADER
Q	_____ In.	THICKNESS OF HEADER

DWG. NO. J-3 SINGLE WINDOW OPENINGS



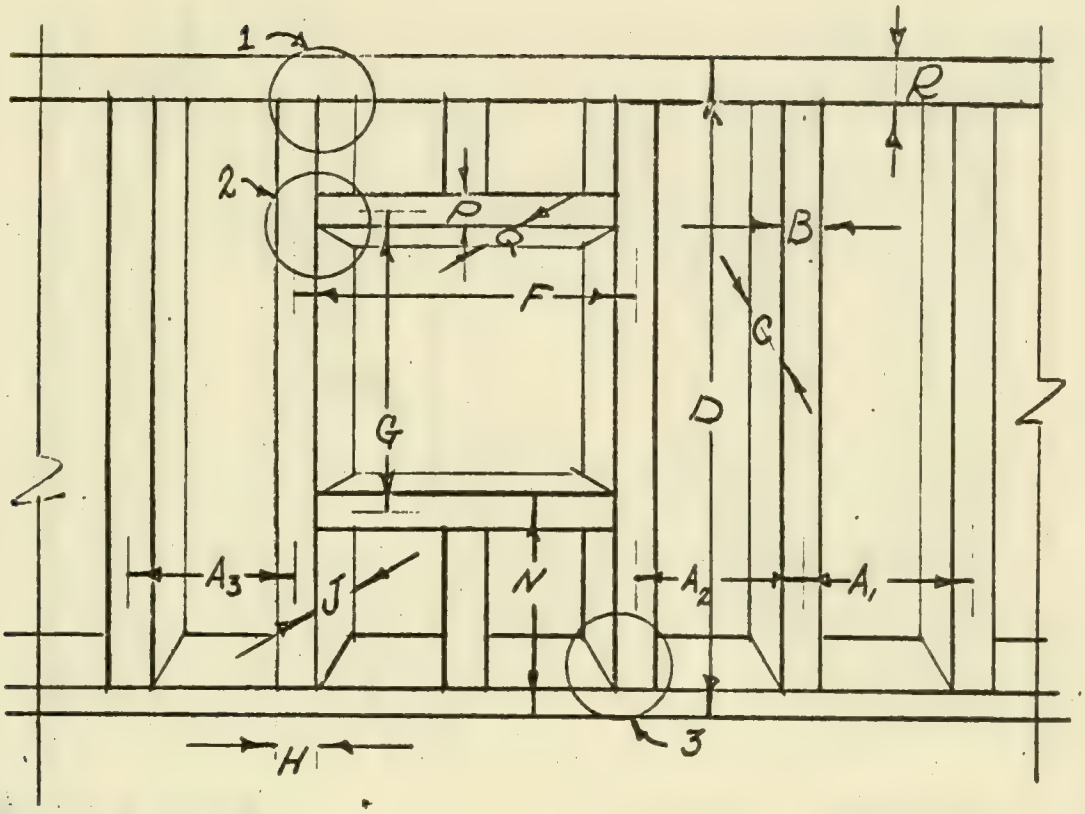
STUD BESIDE OPENING

ITEM	DIMENSION	EXPLANATION
F	_____ In.	WIDTH OF OPENING C/C MEASUREMENT
G	_____ In.	HEIGHT OF OPENING C/C MEASUREMENT
H	_____ In.	TOTAL WIDTH OF STUD (OR STUDS) BESIDE OPENING
J	_____ In.	THICKNESS OF STUD (OR STUDS) BESIDE OPENING
A1	_____ In.	NORMAL STUD SPACING C/C MEASUREMENT
A2	_____ In.	STUD SPACING IF NOT THE SAME AS A1 C/C MEASUREMENT
B	_____ In.	WIDTH OF TYPICAL STUD
C	_____ In.	THICKNESS OF TYPICAL STUD
D	_____ In.	HEIGHT OF TYPICAL STUD

HEADER OVER OPENING

N	_____ In.	HEIGHT OF SILL ABOVE FLOOR
P	_____ In.	WIDTH OF HEADER
Q	_____ In.	THICKNESS OF HEADER

DWG. NO. J-4 SINGLE WINDOW OPENINGS



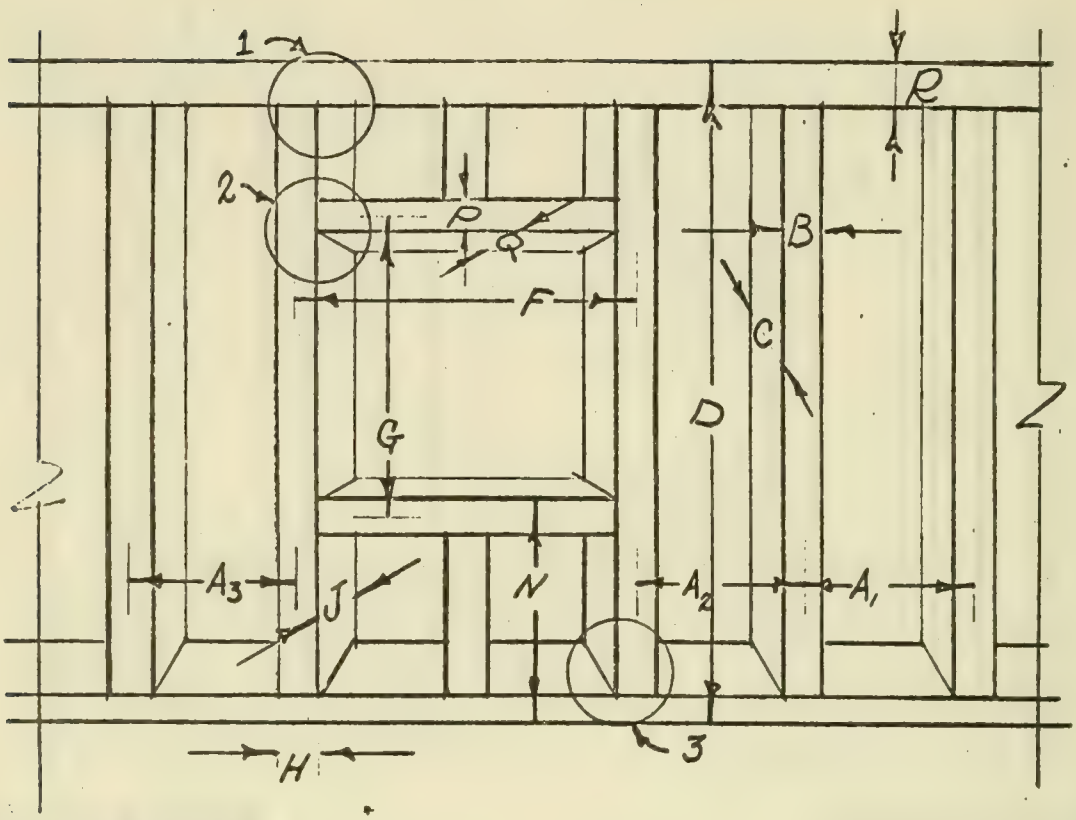
STUD BESIDE OPENING

ITEM	DIMENSION	EXPLANATION
F	_____ In.	WIDTH OF OPENING C/C MEASUREMENT
G	_____ In.	HEIGHT OF OPENING C/C MEASUREMENT
H	_____ In.	TOTAL WIDTH OF STUD (OR STUDS) BESIDE OPENING
J	_____ In.	THICKNESS OF STUD (OR STUDS) BESIDE OPENING
A1	_____ In.	NORMAL STUD SPACING C/C MEASUREMENT
A2	_____ In.	STUD SPACING IF NOT THE SAME AS A1 C/C MEASUREMENT
B	_____ In.	WIDTH OF TYPICAL STUD
C	_____ In.	THICKNESS OF TYPICAL STUD
D	_____ In.	HEIGHT OF TYPICAL STUD

HEADER OVER OPENING

N	_____ In.	HEIGHT OF SILL ABOVE FLOOR
P	_____ In.	WIDTH OF HEADER
Q	_____ In.	THICKNESS OF HEADER

DWG. NO. J-5 SINGLE WINDOW OPENINGS



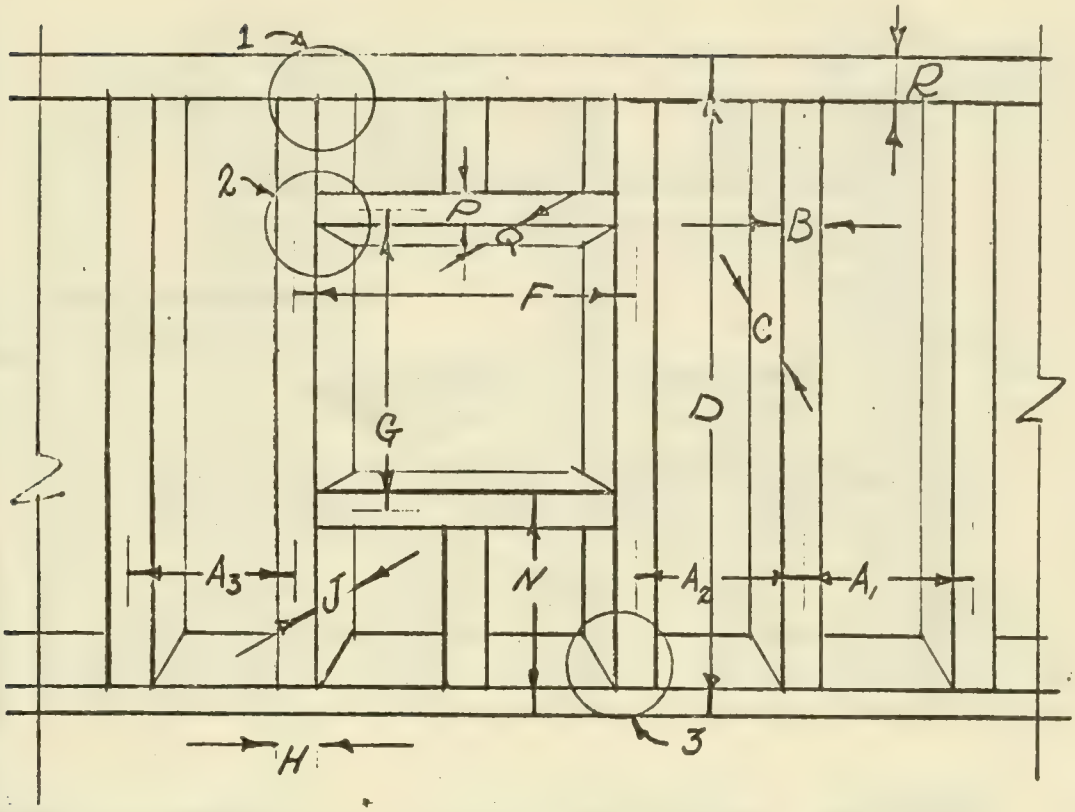
STUD BESIDE OPENING

ITEM	DIMENSION	EXPLANATION
F	_____ In.	WIDTH OF OPENING C/C MEASUREMENT
G	_____ In.	HEIGHT OF OPENING C/C MEASUREMENT
H	_____ In.	TOTAL WIDTH OF STUD (OR STUDS) BESIDE OPENING
J	_____ In.	THICKNESS OF STUD (OR STUDS) BESIDE OPENING
A1	_____ In.	NORMAL STUD SPACING C/C MEASUREMENT
A2	_____ In.	STUD SPACING IF NOT THE SAME AS A1 C/C MEASUREMENT
B	_____ In.	WIDTH OF TYPICAL STUD
C	_____ In.	THICKNESS OF TYPICAL STUD
D	_____ In.	HEIGHT OF TYPICAL STUD

HEADER OVER OPENING

N	_____ In.	HEIGHT OF SILL ABOVE FLOOR
P	_____ In.	WIDTH OF HEADER
Q	_____ In.	THICKNESS OF HEADER

DWG. NO. J-6 SINGLE WINDOW OPENINGS



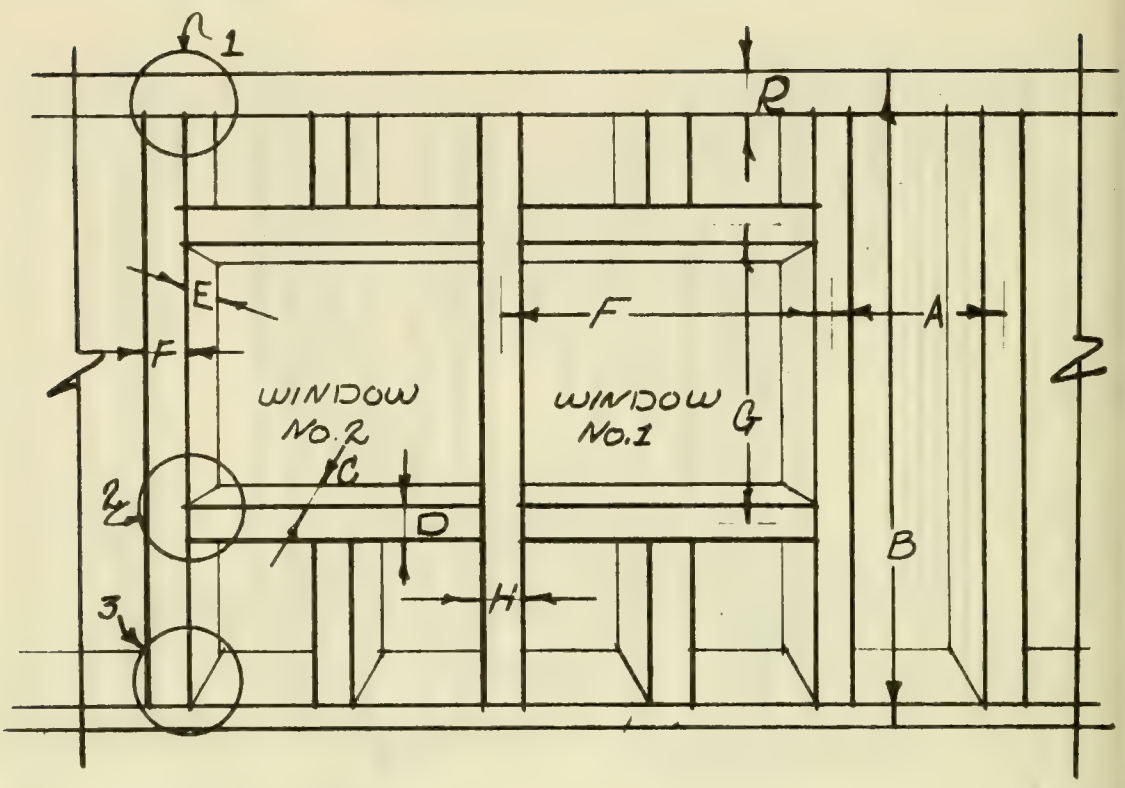
STUD BESIDE OPENING

ITEM	DIMENSION	EXPLANATION
F	_____ In.	WIDTH OF OPENING C/C MEASUREMENT
G	_____ In.	HEIGHT OF OPENING C/C MEASUREMENT
H	_____ In.	TOTAL WIDTH OF STUD (OR STUDS) BESIDE OPENING
J	_____ In.	THICKNESS OF STUD (OR STUDS) BESIDE OPENING
A1	_____ In.	NORMAL STUD SPACING C/C MEASUREMENT
A2	_____ In.	STUD SPACING IF NOT THE SAME AS A1 C/C MEASUREMENT
B	_____ In.	WIDTH OF TYPICAL STUD
C	_____ In.	THICKNESS OF TYPICAL STUD
D	_____ In.	HEIGHT OF TYPICAL STUD

HEADER OVER OPENING

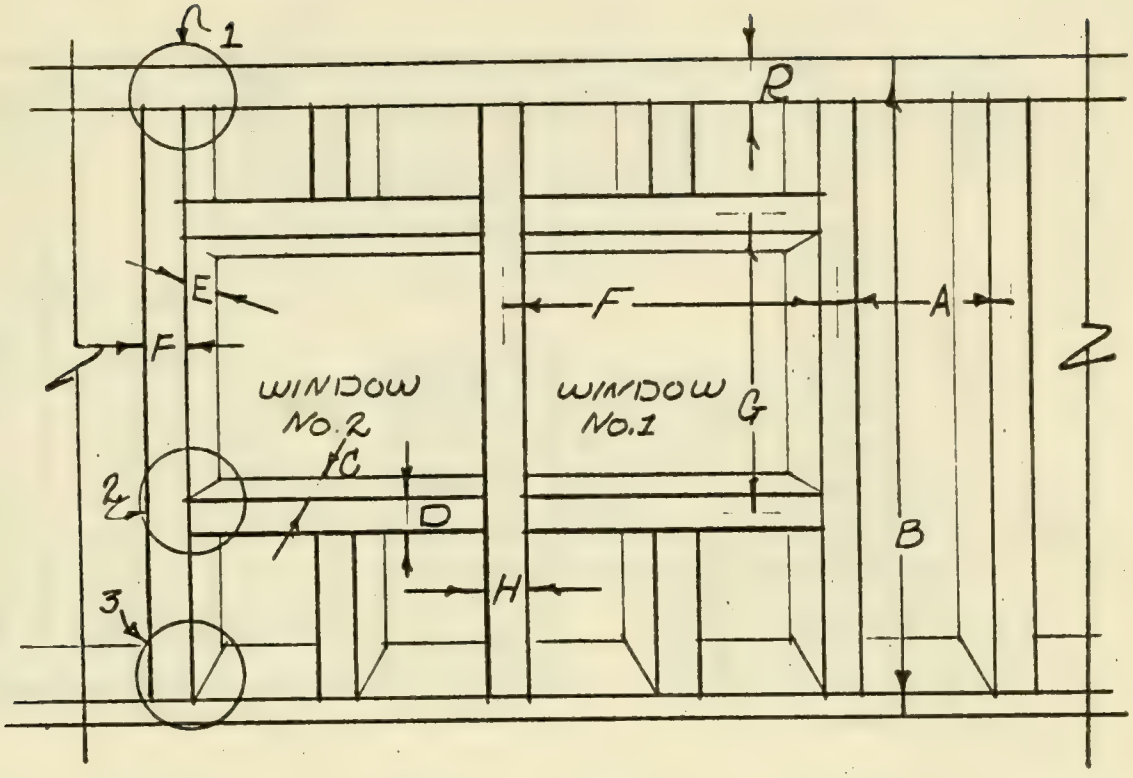
N	_____ In.	HEIGHT OF SILL ABOVE FLOOR
P	_____ In.	WIDTH OF HEADER
Q	_____ In.	THICKNESS OF HEADER

Drawing No. K-1



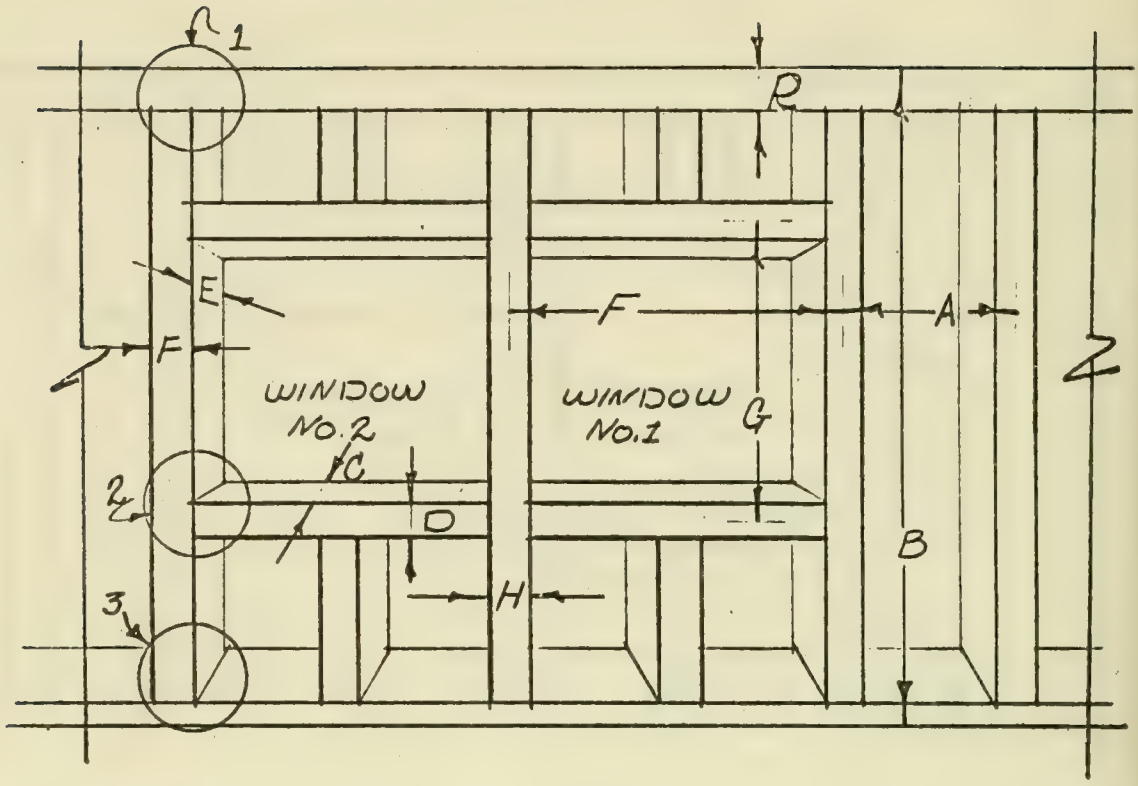
ITEM	DIMENSION	EXPLANATION
F	_____IN.	WIDTH OF OPENING, C/C MEASUREMENT
G	_____IN.	HEIGHT OF OPENING, C/C MEASUREMENT
H	_____IN.	TOTAL WIDTH OF STUD (OR STUDS) BETWEEN OPENINGS
J	_____IN.	THICKNESS OF STUD (OR STUDS) BETWEEN OPENINGS
A	_____IN.	SPACING OF STUD NEXT TO WINDOW C/C MEASUREMENTS
B	_____IN.	HEIGHT OF WALL
C	_____IN.	THICKNESS OF SILL
D	_____IN.	WIDTH OF SILL
E	_____IN.	THICKNESS OF STUD BESIDE OPENING
F	_____IN.	WIDTH OF STUD BESIDE OPENING
	TOP PLATE	
R	_____IN.	TOTAL WIDTH OF PLATE
S	_____IN.	TOTAL THICKNESS OF PLATE

Drawing No. K-2



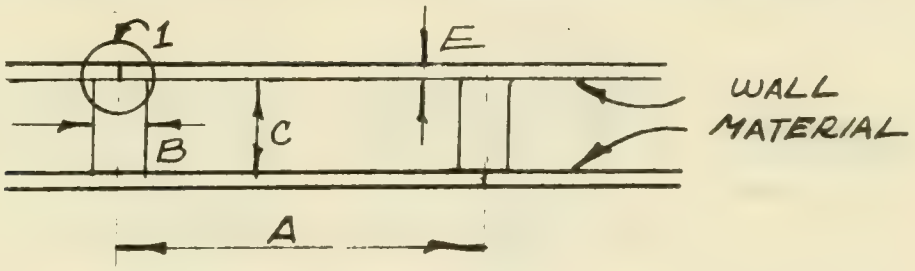
ITEM	DIMENSION	EXPLANATION
F	_____IN.	WIDTH OF OPENING, C/C MEASUREMENT
G	_____IN.	HEIGHT OF OPENING, C/C MEASUREMENT
H	_____IN.	TOTAL WIDTH OF STUD (OR STUDS) BETWEEN OPENINGS
J	_____IN.	THICKNESS OF STUD (OR STUDS) BETWEEN OPENINGS
A	_____IN.	SPACING OF STUD NEXT TO WINDOW C/C MEASUREMENTS
B	_____IN.	HEIGHT OF WALL
C	_____IN.	THICKNESS OF SILL
D	_____IN.	WIDTH OF SILL
E	_____IN.	THICKNESS OF STUD BESIDE OPENING
F	_____IN.	WIDTH OF STUD BESIDE OPENING
	TOP PLATE	
R	_____IN.	TOTAL WIDTH OF PLATE
S	_____IN.	TOTAL THICKNESS OF PLATE

Drawing No. K-3



ITEM	DIMENSION	EXPLANATION
F	_____IN.	WIDTH OF OPENING, C/C MEASUREMENT
G	_____IN.	HEIGHT OF OPENING, C/C MEASUREMENT
H	_____IN.	TOTAL WIDTH OF STUD (OR STUDS) BETWEEN OPENINGS
J	_____IN.	THICKNESS OF STUD (OR STUDS) BETWEEN OPENINGS
A	_____IN.	SPACING OF STUD NEXT TO WINDOW C/C MEASUREMENTS
B	_____IN.	HEIGHT OF WALL
C	_____IN.	THICKNESS OF SILL
D	_____IN.	WIDTH OF SILL
E	_____IN.	THICKNESS OF STUD BESIDE OPENING
F	_____IN.	WIDTH OF STUD BESIDE OPENING
	TOP PLATE	
R	_____IN.	TOTAL WIDTH OF PLATE
S	_____IN.	TOTAL THICKNESS OF PLATE

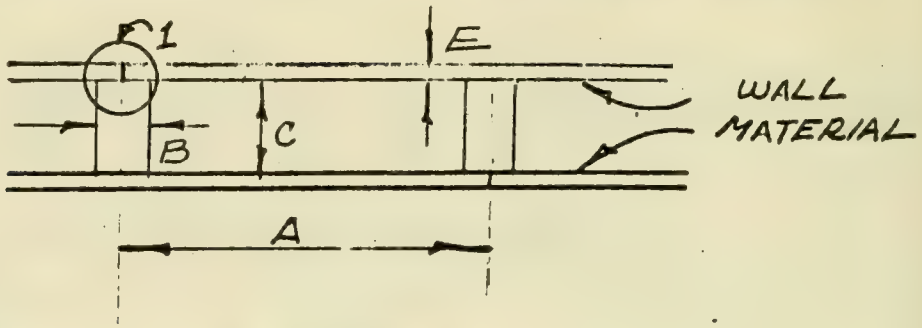
DRAWING NO. L-1 TYPICAL INTERIOR WALL SECTION



ITEM	DIMENSION	EXPLANATION
A	_____In.	SPACING OF STUDS C/C MEASUREMENT
B	_____In.	WIDTH OF STUD
C	_____In.	THICKNESS OF STUD
D	_____In.	HEIGHT OF STUD (MAX. HEIGHT OF STUD USED)
E	_____In.	THICKNESS OF INTERIOR LINING MATERIAL

TYPE OF LINING MATERIAL _____

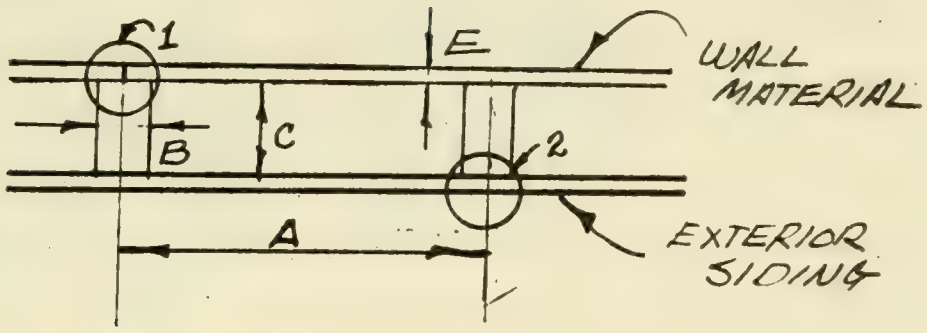
DRAWING NO. L-2 TYPICAL INTERIOR WALL SECTION



ITEM	DIMENSION	EXPLANATION
A	_____In.	SPACING OF STUDS C/C MEASUREMENT
B	_____In.	WIDTH OF STUD
C	_____In.	THICKNESS OF STUD
D	_____In.	HEIGHT OF STUD (MAX. HEIGHT OF STUD USED)
E	_____In.	THICKNESS OF INTERIOR LINING MATERIAL

TYPE OF LINING MATERIAL _____

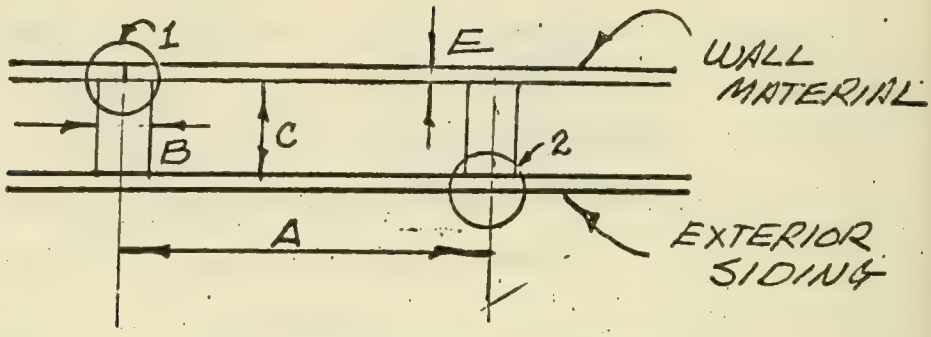
DRAWING NO. M-1 TYPICAL EXTERIOR WALL SECTION



ITEM	DIMENSION	EXPLANATION
A	_____In.	SPACING OF STUDS C/C MEASUREMENT
B	_____In.	WIDTH OF STUD
C	_____In.	THICHNESS OF STUD
D	_____In.	HEIGHT OF STUD (MAX. HEIGHT OF STUD USED)
E	_____In.	THICKNESS OF INTERIOR LINING MATERIAL

TYPE OF LIMING MATERIAL _____

DRAWING NO. M-2 TYPICAL EXTERIOR WALL SECTION



ITEM	DIMENSION	EXPLANATION
A	_____In.	SPACING OF STUDS C/C MEASUREMENT
B	_____In.	WIDTH OF STUD
C	_____In.	THICHNESS OF STUD
D	_____In.	HEIGHT OF STUD (MAX. HEIGHT OF STUD USED)
E	_____In.	THICKNESS OF INTERIOR LINING MATERIAL

TYPE OF LIMING MATERIAL _____

FASTENING SCHEDULE - The following schedule is applicable to all sizes of mobile homes:

Location of Fastener	Type of Fastener	Size, In.	Spacing and Quantity
Frame of floor structure			
Floor material to floor system			
Splash shield to floor joist			
Bottom and top plate to studs			
Headers and sills to studs			
Interior paneling to studs			
Interior partitions to wall, floor and ceiling systems			
Side walls to end walls			
End rails to truss			
End rails to top plate			
Ceiling to truss			
Truss system to walls			
Walls to floor system			
Exterior siding to studs			
Roof materials to side walls			
Vapor barrier to studs, room (warm) side			

NOTE: Please add to above list fastening of any structural members not indicated.

Mobile Home Check-Off Sheets Electrical Systems

January 15, 1971

GENERAL:

Are all appliances, fittings, connectors, etc. UL Listed? (Yes) (No) (3)

The following could not be identified as UL Listed, labeled, or Recognized:

Are Listed appliances employed within their ratings or intended usage? (Yes) (No) (3)

Are vent (only) fans used behind cooking appliances? (Yes) (No)

Are integral switches on lights or medicine cabinets removed for wall switching? (Yes) (No)

Are distribution panels modified for two cords? (Yes) (No)

BRANCH CIRCUIT CONDUCTORS:

Are aluminum conductors employed? (Yes) (No) (4)

Circuits:

Range	(Yes)	(No)
Furnace	(Yes)	(No)
Dryer	(Yes)	(No)
All circuits	(Yes)	(No)
Is cable labeled	(Yes)	(No)

Are distribution panel lugs (including grounding lug) marked AL-CU? (Yes) (No)

Are breakers, if used, marked AL-CU? (Yes) (No)

Are appliance terminals (dryer, range, etc.) marked AL-CU? (Yes) (No)

If no: Are these appliances cord connected to receptacles marked AL-CU? (Yes) (No)

If No. 10 Awg conductors are used, are fixture terminal screws large enough to accommodate the conductor? (Yes) (No)

Are terminal screws tight after installing and removing device? (Yes) (No)

If No. 10 Awg conductors are used in an outlet box, is the wire bent at two right angles to reduce torque on the terminal screws? (Yes) (No)

Is at least 3/4 wire loop made around each terminal screw? (Yes) (No)

Are push-in terminals (no screws) used? (Yes) (No)

Are wire connectors (wire nuts, etc.) marked AL-CU, AL-AL (check box)? (Yes) (No)

Do aluminum conductors supply outside outlet boxes (lights, receptacle, dual wide interconnection, etc.)? (Yes) (No)

LOAD CALCULATIONS:

Are load calculations (calculated load, branch circuits required, and branch circuit protection) made for each different mobile home? (Yes) (No) (5)

Where two or three supply cords are employed, are load calculations made for each source? (Yes) (No) (23)

Are calculated currents balanced as evenly as possible between the two legs? (Yes) (No) (5)

Are distribution panels wired in accordance with load calculations? (Yes) (No) (5)

Does calculated load of either leg exceed rating of main disconnect? (Yes) (No) (6)

DISTRIBUTION PANEL - GENERAL:

Does each distribution panel contain either a single two pole main breaker or a single fused disconnect (pull-out) switch for each supply? (Yes) (No) (11)

Are all branch circuits in each panel de-energized when main breaker is "off" or fused main disconnect is removed? (Yes) (No) (11)

Is distribution panel located near point of entrance of supply cord or raceway? (Yes) (No) (8)

Is distribution panel located in rear third of mobile home? (Yes) (No) (8)
(If dual wide, specify location _____)

Does panel contain a solderless grounding bar or connector? (Yes) (No) (10)

Are sufficient terminals provided for all grounding conductors? (Yes) (No) (10)

Is neutral bar insulated from distribution panel enclosure? (Yes) (No) (10)

Are neutral bonding screws removed and discarded? (Yes) (No) (32)

Is distribution panel located in a closet? (Yes) (No) (12)

If yes: Is it located at least 1 ft above a shelf or floor? (Yes) (No) (12)

Is a clear working space of at least 18 in. provided in front of panel? (Yes) (No) (13)

Is data plate permanently attached to or near panel? (Yes) (No)

If no: Is Location of data plate referenced on distribution panel? (Yes) (No)

Is each main disconnect plainly marked "MAIN"? (Yes) (No) (113)

Are branch circuits detailed on card inside panel? (Yes) (No)

DISTRIBUTION PANEL - CORD SUPPLIED:

Is circuit breaker type panel rated at least 50 amp? (Yes) (No) (11)

Is fuse type panel rated 60 amp? (Yes) (No) (11)

If fuse type, is panel marked in 1/4 in. lettering to indicate main fuse rating such as "Max Main Fuses 40 Amp" or "Max Main Fuses 50 Amp."? (Yes) (No) (114)

Is 50 amp supply cord used? (Yes) (No)

Is 40 amp supply cord used? (Yes) (No)

If yes: Is it used only on mobile homes factory equipped with gas or oil firing heating and cooking appliances? (Yes) (No) (19)

Is it used in conjunction with a second or third supply cord? (Yes) (No) (22)

Is main breaker or fuse rated 40 amp? (Yes) (No) (11)

Is supply cord marked "For Mobile Home Use - 50 Amp" or "For Mobile Home Use - 40 Amp."? (Yes) (No) (18)

Is the length of the cord (plug to bared leads) between 21 and 36-1/2 ft? (Yes) (No) (20)

Is the cord secured to the distribution panel such that it cannot be displaced in either direction? (Yes) (No) (21)

Are extension cords, adaptors, or similar items shipped with the mobile homes? (Yes) (No) (17)

Are supply cords shipped with mobile homes intended for permanent service? (Yes) (No) (17)

Is a metal nameplate provided on the outside of the mobile home near the supply cord entrance which reads "This mobile home is wired for 115/230 v, 3 wire, 60 cy supply. Supply Cord 50 Amp."? (Yes) (No) (115)

Notes: 115/230 v may read 120/240 v.
50 amp shall read 40 amp if applicable.
Supply cord shall read supply cords, if applicable.
No outside marking required for permanent service.

DISTRIBUTION PANEL - MULTIPLE CORDS:

What is maximum number of cords that will be provided?
(0, 1, 2, or 3) _____ (22)

Are multiple supply cords interconnected other than through grounding circuit?
(Yes) (No) (24)

Are separate panels used for each supply cord? (Yes) (No)

If yes: Are panels located near one another in same compartment of mobile home? (Yes) (No)

Do two or three cords enter a single distribution panel? (Yes) (No)

If yes: Does each bay or section contain its own main disconnect and own insulated neutral bar? (Yes) (No)

Are the neutral bars installed by panel manufacturer? (Yes) (No)

Does the marking insert illustrate connections for two or three supplies? (Yes) (No)

Is each individual panel or section of a two or three bay panel marked in 1/4 in. lettering such as "1," "2," "3," or "Main," "Range," "Dryer"? (Yes) (No) (116)

Are cord entrances outside mobile home marked as above on metal nameplates?
(Yes) (No) (116)

Do additional supply cords exit through separate openings within 12 in. of the main supply cord? (Yes) (No) (27)

DISTRIBUTION PANEL - PERMANENT SERVICE:

Will permanent service be used on some homes? (Yes) (No)

Will mast weatherhead assembly be used? (Yes) (No)

If yes: Does weatherhead clear roof by at least 18 in.? (Yes) (No)

Are four insulated conductors provided? (Yes) (No) (15)

Color code _____ _____ _____ _____

Are all fittings Listed? (Yes) (No)

Does wire size correspond to Table I? (Yes) (No)

If weatherhead mast assembly is shipped loose for field assembly, are installation instructions provided? (Yes) (No) (Obtain copy)

Will a through-floor raceway be used (Yes) (No)

If yes: Is rigid conduit, if used, threaded for field installed junction box? (Yes) (No) (15)

Is EMT, if used, reamed? (Yes) (No) (15)

Does mast or raceway size conform to following table? (Yes) (No) (15)

Does data plate specify use of high temperature conductors (RH, THW, etc.)? (Yes) (No) (15)

DISTRIBUTION PANEL GROUNDING:

If separate panels are used, is a grounding conductor connected between panels with a single grounding conductor to chassis? (Yes) (No) (28) or,

Are separate grounding conductors run from each panel to chassis? (Yes) (No) (28)

If a single or combined panel is used, is a single grounding conductor run to chassis? (Yes) (No) (29)

Is grounding conductor securely fastened to grounding bar in panel? (Yes) (No) (31)

Is grounding conductor copper? (Yes) (No) (31)

Wire size _____Awg.

Is a Listed grounding terminal used at the chassis? (Yes) (No) (31)

Is star washer used to break paint? (Yes) (No) (31)
If no: What method is used to break point? _____
_____.

Is grounding conductor routed so as not to be exposed to damage? (Yes) (No) (31)

CONNECTION TO ELECTRIC RANGE AND DRYER:

Is one of the following methods used to connect the electric range and dryer?
(Yes) (No) (33)

	Range	Dryer
A. Cord to Receptacle Outlet	(Yes) (No)	(Yes) (No)
Length _____ _____ ft.		
Rating _____ _____ amp.		
Rated in excess of appliance (Yes) (No)		
Listed (Yes) (No)		
Grounding type plug (Yes) (No)		
Four conductors including ground (Yes) (No)		
B. Armored Cable	(Yes) (No)	(Yes) (No)
Length _____ _____ft.		
Size conductors _____ _____Awg.		
Conductor rating _____ _____ amp.		
Rated in excess of appliances (Yes) (No)		
Listed (Yes) (No)		
Four conductors including ground (Yes) (No)		
C. Service Entrance Cable	(Yes) (No)	(Yes) (No)
Length _____ _____ft.		
Size conductors _____ _____Awg.		
Conductor rating _____ _____amp.		
Rated in excess of appliance (Yes) (No)		
Labeled (Yes) (No)		
Four conductors including ground (Yes) (No)		
D. Flexible Steel Conduit	(Yes) (No)	(Yes) (No)
Length _____ _____ft.		
Trade size _____ _____in.		
Size conductors _____ _____Awg.		
Conductor rating _____ _____amp.		
Rated in excess of appliance (Yes) (No)		
Four conductors including ground (Yes) (No)		

Are appliance bonding screws, straps, or buses (in range, dryer, or washer-dryer combo) removed and discarded? (Yes) (No) (32)

BONDING (GROUNDING) - ELECTRICAL SYSTEM:

Are all exposed metal parts bonded by one or more of the following methods:
(Yes) (No) (35)

Metal Part	Bonded	Method	
1. Receptacles	(Yes) (No)	_____	(A)
2. Fixtures (lights)	(Yes) (No)	_____	(B) (C)
3. Appliance Enclosures	(Yes) (No)	_____	(A)
4. Other: _____	(Yes) (No)	_____	

Methods

A. Connection of the grounding conductor in Type NM cable to the green hex head screw in receptacles and in appliance splice boxes.
B. Connection of the grounding conductor in Type NM cable to the grounding plate in fixture boxes.
C. Connection of the grounding conductor in Type NM cable directly to the fixture pan.
D. Connection by rigid conduit or EMT to metallic outlet boxes.
E. Mounting by metallic fasteners to structural metal which is grounded.
F. Other: Describe in full.

Are cord connected appliances (washer, refrigerator, etc.) grounded by a grounding type plug and cord? (Yes) (No) (36)

GROUNDING CONDUCTOR SPLICES:

Are solderless connectors employed? (Yes) (No) (37)

Crimp type (Yes) (No)
Wire nut type (Yes) (No)
Listed (Yes) (No)

Are grounding conductors arranged and spliced such that continuity of the grounding conductors is not disturbed when a fixture, switch, or receptacle is removed? (Generally this required splicing of the ground conductors with a pigtail connected to the receptacle or fixture) (Yes) (No) (38)

Are grounding conductors splices insulated or stowed to the back of the outlet box? (Yes) (No) (81)

POLARIZATION AND COLOR CODE:

Is the white supply co ductor connected to white terminals or white leads on receptacle, fixtures, appliances? (Yes) (No) (40)

Is the white conductor the unswitched wire in one pole switched circuits? (Yes) (No) (40)

Are the green colored or bare conductors used only for grounding (do not normally carry current)? (Yes) (No) (41)

In 3 or 4 way switch loops, is the return conductor from switch the nonwhite conductor? (Yes) (No) (42)

Is the white conductor of a cable, where used in 240 v circuits, taped or painted a nonwhite color at both ends? (Yes) (No) (42)

EQUIPMENT GROUNDING CONDUCTORS:

In flex steel or conduit systems, are the green colored grounding conductors sized according to the following? (Yes) (No) (39)

Fuse or Circuit Breaker Rating	Copper Wire Size, Awg
15	14
20	12
60	10
100	8
200	6

GROUNDING - NONELECTRICAL:

Is the metallic roof and exterior covering bonded such that the metal panels overlap and are secured with metal fasteners? (Yes) (No) (45)

Is the lower metallic panel bonded by screws, or screws and plated steel straps to chassis? (Yes) (No) (45)

Are gas, water, and metallic waste pipes bonded to the chassis by solderless connectors and conductor, or straps? (Yes) (No) (46)

Wire size _____Awg

Copper (Yes) (No)

Are warm air ducts bonded to chassis? (Yes) (No) (47)

Wire size _____Awg

Copper (Yes) (No)

Aluminum (Yes) (No) Connectors listed for AL-CU (Yes) (No)

Bonding accomplished with floor structure (Yes) (No)

NUMBER OF BRANCH CIRCUITS REQUIRED:

Are the following branch circuits provided? (Yes) (No) (48)

A. Lighting - $\frac{3 \times \text{length} \times \text{width}}{115 \times 15 \text{ (or } 20)}$ = No. of 15 (or 20) amp lighting circuits (Yes) (No)

B. Kitchen appliance - Two 20 amp circuits serving kitchen, dining and patio receptacles only (Yes) (No)

C. Laundry - One separate 20 amp circuit if a laundry area is provided. (Yes) (No)

D. General appliances - One or more circuits for furnace, water heater, range, etc., in accordance with the following: (Yes) (No)

1. May be on lighting circuit if fixed appliance rating not over 50 per cent of circuit rating. (Yes) (No)

2. Fixed appliances on nonlighting circuit does not exceed branch circuit rating, or 80 per cent of rating if motor loads. (Yes) (No)

3. Single portable appliance on its own circuit does not exceed 80 per cent of circuit rating. (Yes) (No)

4. Electric range circuit based on the following table: (Yes) (No)

Derive amperes for free standing range (as distinguished from separate ovens and cooking units) by dividing values below by 230 v.

Name Plate Rating	Use
10,000 w or less	80 per cent of rating
10,001 - 12,500 w	8,000 w
12,501 - 13,500 w	8,400 w
13,501 - 14,500 w	8,800 w
14,501 - 15,500 w	9,200 w
15,501 - 16,500 w	9,600 w
16,501 - 17,500 w	10,000 w

E. Electric Heat - Based on 125 per cent of heater rating. (Yes) (No)
(Example: A 40 amp load requires a minimum 50 amp branch circuit).

BRANCH CIRCUIT PROTECTIVE EQUIPMENT:

Are circuit breakers rated 240 v of the companion trip type? (Yes) (No) (50)

Are fuses Type S? (Yes) (No) (51)

Are fuses and circuit breakers rated as follows? (Yes) (No) (52)

A. Not more than rating of circuit conductors.
B. Not more than 150 per cent of a single appliance rating.
   Exceptions:
   1. Not more than fuse size marked on motor operated appliance.
   2. Receptacles rated 15 amp may be protected with a 20 amp fuse or breaker.

GROUP MOTOR INSTALLATIONS:

Are central air conditioners or other two motor installations protected by fuses? (Yes) (No) (53)

Are conductors sized to 125 per cent of largest motor rating plus 100 per cent of other motor? (Yes) (No)

Exceptions:
A. Room air conditioner may use circuit breakers under the following conditions:
   1. Cord connected.
   2. 40 amp, 250 v, or less.
   3. Single full load current on name plate.
   4. Breaker does not exceed smaller of receptacle or conductor rating.

B. Specific combination of circuit breaker and motor load may be tested for acceptability.

PROTECTION AND SUPPORT OF RACEWAY AND CABLES:

Is sheath, armor, or conduit continuous between outlet boxes? (Yes) (No) (54)

Where cable passed through a stud or frame with less than 1-1/2 in. from inside or outside surface, are 16 MSG plates, tubes, or protectors provided? (Yes) (No) (55)

Exception: Cables may be run without protectors through notches in wall studs when notch is on inside wall and wall material is applied before wiring.

Is Type NM cable supported within 8 in. of a nonmetallic box without clamps? (Yes) (No) (57)

Are cables supported every 4-1/2 ft including runs in roof, wall and floor? (Yes) (No) (57)

If cable is fished, as in a pre-assembled wall panel, is cable secured at the outlet box and stapled where it exits the panel? (Yes) (No)

Are bends in cables radiused at least 5 times their thickness? (Yes) (No) (57)

Is protection of cable supplying a range or dryer provided by the appliance? (Yes) (No) (58)

Is exposed Type NM cable protected from damage? (Yes) (No) (61)

Where necessary to run Type NM cable in a furnace or water heater alcove is cable routed and clamped away from the appliance? (Yes) (No) (62)

WIRING METHODS:

Do cables and raceway terminate at boxes with listed fittings? (Yes) (No) (63)

Exception: No fittings are required at nonmetallic boxes if cable is supported within 8 in. of the box.

Are fixtures and appliances installed so that connections are accessible upon removing of the cover, without removing the fixture (except outlet box mounted types) or appliance? (Yes) (No) (64)

Are outlet, junction, and pull boxes installed so covers are accessible? (Yes) (No) (65)

Is rigid conduit provided with lock nut inside and outside the box? (Yes) (No) (66)

Are conduit bushing used on the inside? (Yes) (No) (66)

Are inside ends of the conduit reamed? (Yes) (No) (66)

Are nonmetallic outlet boxes used only with nonmetallic sheathed cable? (Yes) (No) (67)

Do outlet boxes fit closely to openings in combustible walls and ceiling? (Yes) (No) (68)

Are they flush with such surfaces or project therefrom? (Yes) (No) (68)

Are boxes, fittings, and cabinets securely fastened in place? (Yes) (No) (69)

Are wall and ceiling outlets mounted by two screws threading into framing lumber, or plywood secured to framing lumber? (Yes) (No) (70)

CONDUCTORS IN OUTLET BOXES:

Does maximum number of conductors in outlet boxes exceed values in the following table? (Yes) (No) (73)

Deep Boxes

Box Dimensions, Inches Trade Size	Cap.	Maximum Number of Conductors No. 14	No. 12	No. 10	No. 8
3-1/4 x 1-1/2 octagonal	10.9	5	4	4	3
3-1/2 x 1-1/2 octagonal	11.9	5	5	4	3
4 x 1-1/2 octagonal	17.1	8	7	6	5
4 x 2-1/8 octagonal	23.6	11	10	9	7
4 x 1-1/2 square	22.6	11	10	9	7
4 x 2-1/8 square	31.9	15	14	12	10
4-11/16 x 1-1/2 square	32.2	16	14	12	10
4-11/16 x 2-1/8 square	46.4	23	20	18	15
3 x 2 x 1-1/2 device	7.9	3	3	3	2
3 x 2 x 2 device	10.7	5	4	4	3
3 x 2 x 2-1/4 device	11.3	5	5	4	3
3 x 2 x 2-1/2 device	13.0	6	5	5	4
3 x 2 x 2-3/4 device	14.6	7	6	5	4
3 x 2 x 3-1/2 device	18.3	9	8	7	6
4 x 2-1/8 x 1-1/2 device	11.1	5	4	4	3
4 x 2-1/8 x 1-7/8 device	13.9	6	6	5	4
4 x 2-1/8 x 2-1/8 device	15.6	7	6	6	5

Shallow Boxes

Box Dimensions, Inches Trade Size	Maximum Number of Conductors No. 14	No. 12	No. 10
3-1/4	4	4	3
4	6	6	4
1-1/4 x 4 square	9	7	6
4-11/16	8	6	6

Any box less than 1-1/2 in. deep is considered to be a shallow box.

Fixture Boxes	No. and Size of Conductors	Grounding Conductors	No. of Fittings
A. Volume, _____ in^3			
B. Volume, _____ in^3			
C. Volume, _____ in^3			

Switch or Receptacle Boxes	No. and Size of Conductors	Grounding Conductors	Switches or Receptacles	No. of Fittings
A. Volume, _____ in^3				
B. Volume, _____ in^3				
C. Volume, _____ in^3				

SWITCH AND RECEPTACLE PLATES:

Nonferrous, 0.040 in. minimum thickness (Yes) (No) (71)

Ferrous, 0.030 in. minimum thickness (Yes) (No) (71)

Nonmetallic, listed (Yes) (No) (71)

Are metal plates grounded (Yes) (No) (72)

Special Notes:

1. Fixture leads are not counted.
2. All grounding conductors count as one conductor.
3. Each switch or receptacle counts as one conductor.
4. All fittings, clamps, hickeys, etc., count as one conductor.
5. For combinations of wire sizes, also use the following table.

Volume Required per Conductor

Size of Conductor	Free Space Within Box for Each Conductor
No. 14	2. cubic in.
No. 12	2.25 cubic in.
No. 10	2.5 cubic in.
No. 8	3. cubic in.
No. 6	5. cubic in.

Exception:

If there is not sufficient space for a deeper box, four No. 14 Awg conductors may enter a box provided with cable clamps and containing one or more devices on a single mounting strap.

Is at least 4 in. of free conductor left at each outlet box? (Yes) (No) (76)

Does decorative painting obliterate color coding of individual conductors? (Yes) (No) (77)

Is there a matching receptacle within 6 ft of each cord connected fixed appliance? (Yes) (No) (82)

Are receptacle outlets located such that each point along the floor line is no less than 6 ft from an outlet box? (Yes) (No) (83)

Are additional receptacles installed in the following area? (Yes) (No) (85)

1. Over counter tops in the kitchen (at least one on each side of the sink if countertops are on each side, and 12 in. or over in width) (Yes) (No)

2. Adjacent to the refrigerator and free-standing gas-range space (Yes) (No)

3. At countertop spaces for built-in vanities (Yes) (No)

4. At countertop spaces under wall-mounted cabinets (Yes) (No)

5. In the laundry area, if provided (Yes) (No)

Note: Sketch the configuration of the receptacle. Is it the only receptacle on the branch circuit?

6. Adjacent to bathroom lavoratories (Yes) (No)

Note: Receptacle may be part of medicine cabinet or light fixture.

Are receptacles installed within or adjacent to shower or tub space? (Yes) (No) (86)

Are receptacles at least 6 in. above baseboard heaters (Yes) (No) (87)

SWING OUT UNITS:

Are swing out units wired with three conductor cord with a 15 amp grounding type plug which terminates in a 15 amp grounding type receptacle? (Yes) (No) (88)

Obtain print or full details.

DUAL UNIT HOMES:

Are dual unit homes interconnected by permanent wiring methods (conduit, etc.)? (Yes) (No) (89)

Obtain print or provide full details.

Are dual unit homes built with cord supplied panels in each section? (Yes) (No) (90)

If yes: Are the panels located near one another after the units are joined? (Yes) (No) (90)

Do the supply cords exit the units within 12 in. of each other after the units are joined? (Yes) (No) (90)

Obtain print or provide full details.

Are dual unit homes interconnected with cord and power supply connectors? (Yes) (No) (91)

If yes: Is cord length kept to a minimum? (Yes) (No) (91)

Is the connection in a protected area? (Yes) (No) (91)

Are cords suitable for extra hard usage? (Yes) (No) (91)

Obtain print or provide full details.

SWITCHES:

Are switches rated as follows:

For lighting circuits, rated at least 10 amp, 125 v and in no case less than load (Yes) (No) (92)

For motor and other loads, do switches have ampere or horsepower rating in excess of load? (Yes) (No)

Record complete marking of any switch that controls a motor (such as furnace switch):

RECEPTACLES:

Are lighting and small appliance receptacles parallel blade, 15 amp, 125 v? (Yes) (No) (93)

LIGHTING FIXTURES:

Where pan or canopy of a lighting fixture overlaps outlet box, is one of the following materials used to protect overlapped wall or ceiling material (Yes) (No) (94)

Aluminum, 0.020 in. thick (Yes) (No)

Brass, 0.020 in. thick (Yes) (No)

Steel, 0.016 in. thick (Yes) (No)

Nonconductive, noncombustible building insulation, 1/2 in. compressed thickness (Yes) (No)

Are wall fixtures (identified by integral receptacle or switch) used on ceiling or under a cabinet? (Yes) (No) (95)

Are pendant type fixtures tied in place to prevent damage to fixture and adjacent materials? (Yes) (No) (96)

Are decorative lamps UL labeled? (Yes) (No)

Are factory assembled beam ceiling fixtures used? (Yes) (No)

FLOURESCENT FIXTURES:

Do ceiling mounted flourescent fixtures conform to one of the following? (Yes) (No) (101

A. Marked for direct mounting to low density ceiling material (Yes) (No).

B. Surface material flame spread rating is 25 or less (Yes) (No)

C. Surface material density 20 lb per cubic ft or more (Yes) (No).

D. Fixture rigidly suspended at least 1-1/2 in. from surface (Yes) (No).

Is supply wiring within 3 in. of a ballast rated at least 90 C? (Yes) (No) (97)

Are end to end fixtures, used to form a continuous raceway, Listed for such use? (Yes) (No) (98)

HIGH TEMPERATURE FIXTURES:

Where fixtures are marked to require greater than 60 C wire, are the following wiring methods used? (Yes) (No) (99)

A. The fixture leads are spliced to the appropriate high temperature conductors and run in metal raceway at least 4 ft along (6 ft maximum for wires ending in F) to a junction box at least 1 ft from the fixture. There the high temperature conductors are spliced to the 60 C supply conductors (Yes) (No).

B. Type AF wire is used only where 90 C or greater wire is needed (Yes) (No).

C. Recessed portions of the enclosure are spaced at least 1/2 in. from combustible material or insulation, other than at points of support (Yes) (No).

EQUIPMENT IN BATHROOM:

Are fixtures over a tub or shower stall of the enclosed, gasketed type? (Yes) (No) (102)

Are switches for the above fixtures located outside the tube or shower space? (Yes) (No) (103)

OUTDOOR OUTLETS AND FIXTURES:

Are outdoor receptacles of the metal, gasketed cover type, and located under the mobile home? (Yes) (No) (104)

Are outdoor lighting fixtures marked "Suitable For Wet Locations"? (Yes) (No)

If fixtures are factory installed, is caulking used to prevent water from entering the outlet box? (Yes) (No)

If fixtures are field installed are all materials (hardware, caulking, etc.) and instructions shipped? (Yes) (No)

Are lead ends in outlet box insulated and is box sealed for transit? (Yes) (No)
How is this done:

OUTDOOR OR UNDERCHASSIS WIRING:

Except for dual-wide interconnections, is all outdoor or underchassis wiring run in rigid conduit or liquid tight flex conduit, or EMT where protected by frame or chassis? (Yes) (No) (105)

Are the conductors Type NMC, RHW, TW, etc.? (Yes) (No) (105)

LOW ENERGY CIRCUITS:

Are electric doorbells supplied by a Listed low voltage Class 2 transformer?
(Yes) (No)

Are low energy conductors routed through line voltage outlet or splice boxes?
(Yes) (No) (107)

Is a metal raceway or the chassis used for one conductor of a low energy circuit?
(Yes) (No) (109)

Are television antenna and telephone circuits completely segregated from other electrical circuits? (Yes) (No) (110)

ELECTRICAL TESTING:

Is each mobile home subjected to dielectric strength test of at least 1080 v for 1 sec between live parts, including neutral, and the mobile home ground? (Yes) (No) (112)

Is a voltmeter used, either separate or part of the tester, to measure the test voltage as it is applied to the mobile home? (Yes) (No)

Note: Listed appliances may be disconnected while the test is being run.

Record dielectric tester marking:

The CHAIRMAN. Thank you very much.

Senator Proxmire, do you have questions?

Senator PROXMIRE. Yes, I do.

I think you gentlemen have made a devastating case for sharply amending this bill.

In fact, as I follow your testimony, you argue that this bill is worse than nothing. Maybe I misunderstand you. But let's be blunt about it and clear. Are you saying that?

Mr. INGRAM. It would be for North Carolina; yes.

Mr. CHURCH. Yes, sir.

Senator PROXMIRE. Mr. Ingram, you oppose S. 1348 for that reason; that it would invalidate a stronger North Carolina system that provides for inspection?

Mr. INGRAM. Yes, sir.

Senator PROXMIRE. And does so effectively.

Mr. INGRAM. Yes, sir.

Senator PROXMIRE. And Mr. Church, you complain about the method of enforcement. You argue that the real differences, the differences you have with this bill, as I understand it, are No. 1, there is no requirement for a State plan. And you think there ought to be a plan; right?

Mr. CHURCH. No; there is a requirement for a State plan, but no criteria for approval of the State plan, other than it be equivalent to the Federal plan, which only provides for the manufacturers to self-certify.

Senator PROXMIRE. I should say for the approval of a plan that would meet the criteria.

Mr. CHURCH. That is correct.

Senator PROXMIRE. Then you say there is no requirement for inspection.

Mr. CHURCH. That is correct. Authorization for inspection, but no requirement.

Senator PROXMIRE. Then you point out that there is no requirement of competent personnel to do the inspections.

Mr. CHURCH. Or to approve the plans; that is correct.

Senator PROXMIRE. Or to approve the plan.

You feel that is essential?

Mr. CHURCH. Yes, sir.

Senator PROXMIRE. Then how about the requirement in the bill that specifies that there shall be a written notice in advance before inspection? What kind of inspection is that?

Mr. INGRAM. It is terrible.

Mr. CHURCH. Mr. Proxmire, I have 8 pages of criticisms of the bill, section by section, here. I couldn't go into all of those, but that is one of my criticisms, among others.

[The following information was received for the record:]

National Conference of States on Building Codes and Standards

ORGANIZED 1967

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July 27, 1973

SEN. JOHN SPARKMAN
RECEIVED
JUL 30 1973
WASHINGTON, D. C. 20510

The Honorable John J. Sparkman, Chairman
Sub-Committee on Banking, Housing and Urban Affairs
3203 New Senate Office Building
Washington, D. C. 20510

RE: S-1348 Mobile Home Safety Legislation

Dear Senator Sparkman:

Thank you for the courtesies extended by you and your Committee in allowing me to present the views of the National Conference of States on Building Codes and Standards on the above bill.

As per your request at the hearing, you will find attached copy of the "Mobile Home Act" which was drafted by representatives of NCSBCS, International Conference of Building Officials, Building Officials and Code Administrators, International, and Southern Building Code Congress, with assistanee by the United States Department of Commerce and the United States Department of Housing and Urban Development. The Council of State Governments will include this "Mobile Home Act", "Manufactured Building Act" and "State Building Code Act" in their recommended legislation this fall. You will recall that we recommended that the "methods of enforcement" included in this act be incorporated in the Federal Act.

In our testimony, we recommend that the general policies and recommendations of NCSBCS including general principles for incorporation in federal mobile home legislation be given utmost consideration by your Committee. Copy of these general policies and recommendations is also attached.

You will recall that you asked me to send suggested amendments which would incorporate the general principles of NCSBCS for the use of the Committee. In order to be of immediate assistance, enclosed you will find copy of such suggested amendments as authorized by the Executive Committee.

Please be assured that we will be happy to work with your Committee through NCSBCS in improving these suggested amendments and drafting other amendments to the above bill

so that it will protect the public as intended.

Yours very truly,

Kern E. Church, P. E.
Chairman
Legislative Committee

KEC:mc

Enclosures

(These suggested amendments have been prepared by Kern E. Church, Chairman of NCSBCS Legislative Committee as a draft for consideration by the NCSBCS Executive Committee. They have been reviewed and approved by Mr. C. Sutton Mullen, Jr., Member of the Executive Committee and Member of NCSBCS Legislative Committee.)

SUGGESTED AMENDMENTS APPLICABLE TO THE MOBILE HOME SAFETY BILL S-1348

Page 5, Line 14, Sec. 103 (f) (1) - After the word "shall" add the words: "adopt the standards for mobile homes and amendments thereto only with the approval of the Mobile Home Safety Advisory Council established by Section 104 and these standards shall initially be in substantial compliance with the Mobile Home Standard ANSI - A119.1. The secretary and the Safety Advisory Council shall ——"

Page 5, Line 18, Sec. 103 (f) (1) - Delete the phrase "The American National Standards Institute Committee on Mobile Homes and Recreational Vehicles" and substitute the following in lieu thereof: "organizations of state and local officials having responsibility to protect the public from unsafe buildings, American Society of Testing Materials, American National Standards Institute, National Fire Protection Association, Underwriters' Laboratories, American Insurance Association and similar nationally recognized organizations conducting research, testing and inspection for the safety of mobile homes and other dwellings."

Page 5, Line 23, Sec. 103 (f) (2) - Delete the words "as he deems appropriate" and add the following in lieu thereof: "which are independent and show an interest in and can demonstrate they are competent and have experience in research, engineering evaluations, testing or inspection of mobile homes."

*Page 6, Line 23, Sec. 104 (a) - Delete the following phrase in the middle of the sentence: "and the remainder shall include members of the American National Standards Institute Committee on Mobile Homes and Recreational Vehicles" and substitute the following in lieu thereof: "the design professions, independent testing and independent inspection organizations, consumers" and add the following at the end of the sentence: "The Advisory Council shall establish a structural, mechanical and electrical sub-committee each of which has the above balanced membership with each sub-committee member being specifically qualified to evaluate, confirm tests and inspect mobile homes in accordance with the structural, mechanical and electrical features consistant with his sub-committee membership."

*Page 7, Line 18, Sec. 104 (d) - Add the following Section (d) to Section 104: "(d) - The Mobile Home Safety Advisory Council shall hold a public hearing with ample notice to all interested parties before adopting or amending the Mobile Home Standard."

Page 10, Line 17, Sec. 106 (b) - Add the word "independent" between the word "and" and the word "non-profit" towards the end of the Section.

Page 11, Line 7, Sec. 107 - Add the word "independent" between the word "and" and the word "private" in the middle of the first paragraph.

**Page 11, Line 8, Sec. 107 - Delete the following words at the end of this paragraph: "The American National Standards Institute Committee on Mobile Homes and Recreational Vehicles" and add the following in lieu thereof: "organizations of state and local officials having responsibility to protect the public from unsafe buildings, American Society of Testing Materials, American National Standards Institute, National Fire Protection Association, Underwriters' Laboratories, American Insurance Association and similar nationally recognized independent organizations conducting research, testing and inspection for the safety of mobile homes and other dwellings."

*Page 11, Line 13, Sec. 107 (2) - Add the word "evaluating" between the word "for" and the word "inspecting".

***Page 11, Line 14, Sec. 107 - Renumber the first sentence as (a) and add the following section (b):
"(b) - The Secretary is authorized to contract with state agencies, professional architectural and engineering firms and independent private inspection organizations to conduct inspections authorized by Section 112 in accordance with evaluating, inspecting and testing procedures developed under Section 107."

***Page 11, Line 14, Sec. 107 - Add the following new Section (c) -
"(c) - The secretary is authorized to establish fees to be paid by the manufacturer to cover the costs of such inspections, such costs to be reasonable and consistant with other professional engineering and inspection services."

*Page 11, Line 14, Sec. 107 - Add the following new section (d) -
"(d) - The secretary is authorized to consult with intra-state and inter-state mobile home manufacturers' organizations to the end that representative small, medium and large mobile home manufacturers have input into the development of mobile home safety standards and methods for evaluating, inspecting and testing to determine compliance with such standards."

Page 12, Line 11, Sec. 108 (b) - Delete Sections 2 and 3 and all but the first sentence of Paragraph 1.

Page 15, Line 7, Sec. 109 (a) - Delete the following at the end of the Section: "except that the maximum civil penalty shall not exceed $400,000 for any related series of violations."

Page 18, Line 4, Sec. 111 - Add a new Section to preceed Sec. 11 (a): "Unless a state plan, approved under Section 120, is in effect and provides for procedures for correcting defects found in mobile homes which do not comply with the mobile home safety standards, the following section shall apply:"

**Page 20, Line 14, Sec. 112 (b) - Delete the words "and a written notice" in the first paragraph.

Page 20, Line 20, Sec. 112 (b) (2) - Delete the words "and within reasonable limits and in a reasonable manner" and delete the words "each such inspection shall be commenced and completed with reasonable promptness."

***Page 21, Line 1, Sec. 112 (c) - Add the words "current plans, specifications, engineering analysis, test reports, compliance control check lists for each unit and" between the word "maintain" and the word "such" at the first part of the paragraph.

*Page 22, Line 8, Sec. 112 (e) - Delete this Section.

Page 23, Lines 23,25 & 24, Sec. 113 (d) - Delete the following in the second sentence: "so much of" and "as he deems will assist in carrying out the purpose of this title" and "a trade secret or other."

Page 25, Line 22, Sec. 113 (c) (2) - Delete the following at the end of the third sentence: "or that the alleged defect does not affect mobile home safety."

**Page 26, Line 24, Sec. 117 - Add the words "and independent private agencies" between the words "agencies" and the word "to".

Page 29, Line 2, Sec. 120 (c) (1) - Add the words "on all mobile homes manufactured, sold or offered for sale" between the word "plan" and the word "throughout".

***Page 29, Line 3, Sec. 120 (c) (2) - Delete and substitute the following in lieu thereof: "provides for the enforcement of mobile home safety standards by requiring plan approval, confirmation of tests and in-plant inspections under the same inspection procedures and inspection frequency regardless of state of manufacture. Such in-plant inspection required and approved by the state must be effective and be available to manufacturing plants in all states."

Page 29, Line 11, Sec. 120 (c) (4) - Add the words "engineers to evaluate, confirm tests and make inspections of the structural, mechanical and electrical features of the standard" in lieu of the word "personnel."

Page 29, Line 13, Sec. 120 (c) (5) - Add the words "charge adequate and reasonable fees to administer the plan and otherwise" between the words "will" and the word "devote".

Page 29, Line 17, Sec. 120 (c) (6) - Substitute "as required by" for the word "to" and delete the words "in the same manner and to the same extent as if the state plan were not in effect."

**Page 29, Line 23, Sec. 120 (c) - Add a new section as follows:
"(8) - Provides satisfactory assurances that qualified state personnel will monitor jointly with other states the work of all mutually approved state inspection programs and mutually approved independent inspection organizations so they all will be equally effective in providing for safe mobile homes within the State's jurisdiction."

Page 30, Line 21, Sec. 120 (f) - Delete the word "and" on the second line and add a comma and add the following after the word "inspection": "and inspections by independent private agencies under contract,"

***Page 32, Line 3, Sec. 121 - Add the following at the beginning: "In order to promote and assure a continuing and effective national mobile home safety program, it is the policy of Congress to encourage each state to adopt and implement effective inspection programs applicable to all mobile homes manufactured, sold or offered for sale within their jurisdiction and to encourage such states adopting such program to cooperate with each other in the joint monitoring of mutually approved inspection programs. (To this end, the Secretary may authorize an annual grant to each state of a minimum of $50,000 or an amount equal to five dollars for each mobile home sold within the state during the past year whichever is the most or a maximum of $200,000. This grant shall continue for a period of two years provided such funds are used for the purpose of providing start-up funds to hire a staff of engineers and inspectors who are qualified to evaluate, confirm tests and inspect the structural, mechanical and electrical features of the mobile home safety standard. This amount may be adjusted in accordance with Section 121 (c) and an approved state plan at the end of two years.")

***Page 32, Line 16, Sec. 121 (c) - Add the following at the end of the sentence:

"based on the agency being qualified to evaluate, confirm tests and inspect the structural, mechanical and electrical features for compliance with approved standards and other criteria the secretary determines necessary to provide safe mobile homes within the State."

*** First priority amendments ** Second priority amendments * Third priority amendments

POLICIES AND RECOMMENDATIONS OF PRINCIPLES FOR INCORPORATION IN FEDERAL MOBILE HOME LEGISLATION (Excerpted from presentation of NCSBCS on S-1348 before Senate Committee on July 24, 1973)

If the Congress determines that federal legislation is needed and S-1348 is to be utilized, the following NCSBCS policies and recommendations of general principles adopted by the NCSBCS Reciprocity Committee for incorporation in federal legislation should be given consideration:

(1) Recognize the validity of existing effective state mobile home and recreational vehicle regulatory programs, which accept units crossing state lines which have been evaluated, inspected and labeled in conformance to criteria uniformily acceptable to all states.

(2) Establish a reasonable time period for states not now having effective mobile home and recreation vehicle regulatory programs to develop and implement such programs.

(3) States failing implementation of an effective program within the stipulated time period would then be subject to an effective federal program including evaluation, inspection and labeling in accordance with the same criteria accepted by the states, with fees to be levied commensurate with the cost of services provided.

(4) Before mobile homes are required to be accepted by any state or other political subdivision, under any federal or state enforcement system, the labels or the certificates indicating compliance must assure that representative samples of such mobile homes have been evaluated and inspected

in the plant by federal or state personnel (or their approved and monitored independent agent personnel) who are competent to evaluate and inspect the structural, mechanical and electrical features for compliance with the mobile home safety standard and that sufficient in-plant inspections are made by such unbiased personnel to assure that all units produced are in compliance.

(5) The responsibility for the developing and amending of the mobile home standard must be under the jurisdiction of a duly appointed balanced Board consisting of persons who are competent to evaluate and inspect mobile homes for compliance with mobile home standards, which should consist of representatives of the state and local code enforcement officials, the design professions, consumers, independent testing organizations, independent inspection organizations, insurers and mobile home manufacturers.

(6) In states without an inspection program, the federal agency should be encouraged, to the extent practicable, to contract with competent independent private inspection agencies which specialize in such work for their inspection in lieu of hiring an army of federal inspectors and federal engineers which would be required if the federal government assumed the responsibility to make sufficient inspections to protect the public.

(7) The inspection of used mobile homes should be under the jurisdiction of the State and their legal subdivisions.

MOBILE HOME ACT

With the growth of a nationwide market for many types of housing products, including mobile homes, and regional markets for others, a uniform and comprehensive approach to regulation of such products has become highly desirable. The Mobile Home Act and two companion bills, the Manufactured Building Act and the State Building Code Act, respond to this need through state, rather than Federal, action by promoting intra- and interstate uniformity of regulation and interstate reciprocal acceptance of building products. This legislation represents a synthesis of the experience of Federal, state and local government in regulation construction to enable the states to protect the public health, safety and welfare better. The three Acts are written in a manner permitting them to be administered by a single state agency and a single building code council if a state enacts any two of them, or all three. If a state enacts but one of them, each Act is complete and may be administered independently.

The basic regulatory scheme of the Mobile Home Act is as follows: (1) a manufacturer submits to the state agency or to an independent third party approved by the state the plans, specifications and other necessary documentation for the mobile homes which he intends to produce; (2) if these are approved as complying with the law, either the state agency or an independent third party approved by the state will inspect the actual mobile homes as they are being produced; (3) the compliance of a mobile home with the law is indicated by a state approved label attached at the factory; and (4) local enforcement agencies inspect such units upon installation to determine whether they are correctly installed.*

The Mobile Home Act was drafted by representatives of the National Conference of States on Building Codes and Standards, the Mobile Home Industry, the International Conference of Building Officials, Inc., Building Officials and Code Administrators International, Inc., and the Southern Building Code Congress, with assistance by the U. S. Department of Commerce and the U. S. Department of Housing and Urban Development. It was sponsored for publication by the Council of State Governments by the National Conference of States on Building Codes and Standards, a cooperating member of the Council of State Governments.

*A Section-by-Section Analysis of the Act, prepared by the drafting group, may be obtained from the Council of State Governments, Iron Works Pike, Lexington, Kentucky 40505.

MOBILE HOME ACT

Section 1. SHORT TITLE

This Act shall be known and may be cited as the "[Name of State] Mobile Home Act."

Section 2. LEGISLATIVE FINDINGS AND INTENT

[NOTE: Each State should write its own legislative findings to meet the individual conditions. The following are suggested possibilities:]

[Conditions exist in this State which create a shortage of decent, safe, and sanitary housing. The production and utilization of mobile homes and the use of new and improved technologies, techniques, and materials will increase the available supply of housing at prices which most residents of this State can afford.

[Uniformity of standards governing mobile homes and uniformity in procedures for enforcing standards throughout the nation and the State are matters of nationwide and statewide interest and concern in that uniformity would increase the efficiency of the mobile home industry and futher assure the safety of its products. The necessity for uniformity is increased because mobile homes may be moved from jurisdiction to jurisdiction.

[The production and utilization of mobile homes and the use of new technologies, techniques, and materials are enhanced by the utilization and application of uniform standards and uniform procedures for enforcing the standards within this State, and would be further enhanced by widespread reliance upon uniform and reasonable material specifications and the use of performance criteria.

[Mobile homes, because of the manner of their construction, assembly, and use, like other finished products with concealed vital parts, may present hazards to health and safety unless properly manufactured. Also, mobile homes may contain hazardous defects not readily ascertainable when inspected by purchasers or by local enforcement agencies. The legislature intends, by this Act, to provide protection to the public against these possible hazards.

[The legislature intends, by this Act, to create conditions in this State which will facilitate the production and use of mobile homes and the use of new technologies, techniques, and materials consistent with the requirements of health, safety, and welfare.

[The legislature intends that the administration and enforcement of this Act shall be within the jurisdiction of a single administrative agency.]

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Section 3. DEFINITIONS

(a) Wherever used or referred to in this Act, the terms defined herein have the meanings assigned to them unless a different meaning is clearly indicated by the context.

(b) ADMINISTRATIVE AGENCY. "Administrative Agency" means _____, (name of agency) which is charged with the administration and enforcement of this Act.

(c) APPROVED. "Approved" means approved by the [Administrative Agency].

(d) COMPLIANCE ASSURANCE PROGRAM. "Compliance Assurance Program" means the system, documentation, and methods for assuring that mobile homes, including their manufacture, storage, transportation, assembly, handling, and installation conform with this Act and the rules and regulations promulgated pursuant thereto.

(e) EVALUATION AGENCY. "Evaluation Agency" means an approved person or organization, private or public, including a governmental agency, determined by the [Administrative Agency] to be qualified by reason of facilities, personnel, experience, and demonstrated reliability and independence of judgment, to investigate, evaluate, and approve mobile home systems, or compliance assurance programs, and to issue labels.

(f) INDEPENDENCE OF JUDGMENT. "Independence of Judgement" means not being affiliated with or influenced or controlled by mobile home manufacturers or by producers, suppliers, or vendors of products or equipment used in mobile homes, in a manner likely to affect capacity to render reports and findings objectively and without bias.

(g) INSPECTION AGENCY. "Inspection Agency" means an approved person or organization, private or public, including a governmental agency, determined by the [Administrative Agency] to be qualified by reason of facilities, personnel, experience, and demonstrated reliability and independence of judgment, to conduct or supervise compliance assurance programs, certify mobile homes, and issue and attach labels.

(h) INSTALLATION. "Installation" means the process of placing a mobile home on a site, and connecting it to utilities. Installation also may mean the connecting of two or more mobile home units designed and approved to be connected for use as a dwelling.

(i) LABEL. "Label" means an approved device or seal evidencing certification in accordance with this Act and the rules and regulations promulgated pursuant thereto.

(j) LOCAL ENFORCEMENT AGENCY. "Local Enforcement Agency" means the agency or agencies of local government with authority to make inspections of buildings [including mobile homes] and to enforce the laws, ordinances, and regulations enacted by the State and by the local government which establish standards and requirements applicable to the construction, alteration, repair, occupancy, or demolition of buildings [including mobile homes].

(k) LOCAL GOVERNMENT. "Local Government" means any county, city, municipal corporation, town, or other political subdivision of this State with authority to establish standards and requirements applicable to the construction, alteration, repair, occupancy, or demolition of buildings [including mobile homes].

(l) MOBILE HOME. "Mobile Home" means a factory-assembled, movable dwelling designed and constructed to be towed on its own chassis, comprised of frame and wheels, to be used without a permanent foundation, and distinguishable from other types of dwellings in that the standards to which it is built include provisions for its mobility on that chassis as a vehicle.

(m) MOBILE HOME SYSTEM. "Mobile Home System" means plans, specifications, and documentation for a system of mobile home, which may include structural, electrical, mechanical, plumbing, and fire protection systems and other systems affecting health and safety, including variations which are submitted as part of the mobile home system.

Section 4. [BUILDING CODE COUNCIL]

(a) A [Building Code Council or such other name as may be designated for this function, hereinafter called the "Council"] is created. The [Council] shall consist of twelve qualified persons: The [chief executive officer of the Administrative Agency] (nonvoting), a representative of the general public, one registered architect, one registered professional engineer (structural), one registered professional engineer (mechanical), one registered professional engineer (electrical), one licensed general contractor, one representative of the building trades, one homebuilder, one building code enforcement officer from local government, one mobile home manufacturer, and one building manufacturer.

(b) Members of the [Council], except the [chief executive officer of the Administrative Agency], shall be appointed by the Governor for four-year terms of office and serve until qualified successors are appointed, except that the Governor, for the first appointments to the [Council] shall appoint three members for terms of four years, three members for terms of three years, three members for terms of two years, and two members for terms of one year. Three or more consecutive failures by a member to attend meetings of the [Council], without reasonable cause, constitutes cause for removal of the member from the [Council] by the Governor, or by the Chairman with concurrence by a

majority of the [Council]. The Governor shall appoint a new member when a vacancy occurs. When a vacancy occurs, a majority of the remaining members of the [Council] may appoint an interim member to fill the vacancy for the remainder of the term or until the Governor appoints a permanent member.

(c) Members of the [Council] shall receive an allowance of $____ per day or part of a day actually spent attending to the business of the [Council] and be compensated for traveling expenses as provided in ___. [NOTE: Fill in the first blank with the State's standard amount and the second with the appropriate statutory reference.]

(d) The [Council] shall meet at the written request of the [chief executive officer of the [Administrative Agency] or of three or more members of the [Council]; but the [Council] shall meet no fewer than ____ times per year.

(e) The [Council] shall establish rules and regulations and bylaws for its internal operation.

(f) The [Council] shall be part of the [Administrative Agency] and exercise its powers, duties, and functions independently of the [Administrative Agency], except that all budgeting, procurement, and related functions shall be under the direction and supervision of the [chief executive officer of the Administrative Agency].

(g) No member may act as a member of the [Council], or vote as such in connection with any matter in which he has a private interest.

(h) The [Council] may employ an executive secretary. The [Administrative Agency] shall assign personnel to assist the [Council] in the performance of its functions.

Section 5. RULES AND REGULATIONS

(a) The [Administrative Agency] shall and any other interested party may propose rules and regulations and amendments thereto. The [Council] shall adopt and may amend or repeal rules and regulations. After adoption by the [Council], the [Administrative Agency] shall publish, administer, and enforce the rules and regulations.

(b) The rules and regulations shall establish standards, specifications, and requirements for mobile homes; they also shall establish requirements for mobile home systems and compliance assurance programs. To the extent practicable, the standards, specifications, and requirements shall be set forth in terms of performance objectives, so as, inter alia to facilitate the use of new technology, techniques, and materials. Preference shall be given to performance standards reasonably consistent with those of other States.

(c) The [Administrative Agency] shall consider and may propose, and the [Council] shall consider and may adopt the codes, standards, and requirements which apply to mobile homes and are promulgated by such organizations as the American National Standards Institute and other nationally recognized organizations, including governmental agencies. The [Council] shall endeavor to maintain the rules and regulations current with the state of the art.

(d) In adopting codes, standards, and requirements, no changes or modifications may be made therein without express findings setting forth reasonable cause of the changes or modifications. Any changes or modifications adopted by the [Council] shall be submitted, with the reasons therefor, for consideration by the appropriate organization for amendment of the code, standard, or requirement.

(e) The [Council] shall provide for a public hearing prior to adopting any rule or regulation or amendment thereto, following adequate public notice.

(f) The [chief executive officer of the Administrative Agency] shall establish a position of [Building Official], establish minimum qualifications for the position, and appoint a qualified person to fill the position. The [Building Official] shall assist the [chief executive officer] in the administration and enforcement of all provisions of this Act and the rules and regulations promulgated pursuant thereto.

(g) Except as provided by or pursuant to this Act (or any Mobile Home Park law of this State), land use zone requirements, fire zone boundaries, building set-back requirements, side and rear yard requirements, property line requirements, and on-site development, construction, installation, and inspection are specifically and entirely reserved to local government.

Section 6. APPROVAL

(a) The [Administrative Agency] shall evaluate mobile home systems and approve those which it determines to be in compliance with this Act and the rules and regulations. The [Administrative Agency] may utilize the results of approved tests to determine if a mobile home system meets the requirements of this Act and the rules and regulations, if that determination cannot be made from evaluation of plans, specifications, and documentation alone.

(b) The [Administrative Agency] shall evaluate manufacturers' compliance assurance programs and approve those which it determines to be in compliance with this Act and the rules and regulations.

(c) A mobile home system, a compliance assurance program, or an amendment thereto, which has been approved, shall not be varied in any way without authorization by the [Administrative Agency] in accordance with the rules and regulations.

(d) The [Administrative Agency] may authorize evaluation agencies to evaluate and approve mobile home systems and compliance assurance programs and to issue labels. The [Administrative Agency] may suspend or revoke such authorization for cause.

(e) The [Administrative Agency] shall periodically monitor the entire process of mobile home system approval and compliance assurance program approval of each evaluation agency in order to verify its reliability.

(f) The [Administrative Agency] may suspend or revoke, or cause to be suspended or revoked, the approval of any mobile home system or any compliance assurance program whenever the approval was issued in error, or on the basis of incorrect information, or in violation of this Act or of any rule or regulation. If the [Administrative Agency] determines that mobile homes manufactured pursuant to an approved mobile home system do not comply with this Act or the rules and regulations, and the manufacturer fails to comply with a corrective order, the [Administrative Agency] shall suspend or revoke, or cause to be suspended or revoked, the approval of the manufacturer's compliance assurance program. Notice of suspension or revocation of an approval shall be in writing with the reasons for suspension or revocation set forth therein. Appeals from suspensions or revocations shall receive timely review pursuant to Section 13 hereof.

Section 7. CERTIFICATION

(a) Mobile homes shall be certified by the [Administrative Agency] as complying with this Act and the rules and regulations, if they have been manufactured in accordance with an approved mobile home system and passed inspection in accordance with an approved compliance assurance program. Certification shall be evidenced by the attachment to each mobile home of a label issued by the [Administrative Agency]. Certified mobile homes shall not be altered in any way prior to the issuance of [registration or title by the Department of Motor Vehicles, or other appropriate agency] or [applicable occupancy permits, certificates of occupancy or whatever similar device is used] without resubmission for approval of the alteration and of the unit which includes the alteration.

(b) The [Administrative Agency] may authorize inspection agencies to perform all or part of the inspection and certification of mobile homes, including either or both the issuance and the attachment of labels thereto. The [Administrative Agency] may suspend or revoke such authorization for cause.

(c) Notwithstanding the provisions of any other law, mobile homes certified pursuant to this Act shall be deemed to comply with the requirements of all laws, ordinances, and regulations of this State or of local governments which govern the matters within the scope of the approval and certification applicable to mobile homes, including those bearing upon technologies, techniques, and materials, or the safety of mobile homes. Local enforcement agencies shall issue [whatever permit or certificate is required] for certified mobile homes prior to installation and issue [certificates of occupancy] for certified mobile homes after they have been installed and inspected pursuant to Section 11 of this Act; any mobile home found not to comply with this Act shall be brought into compliance with this Act before the [certificate of occupancy] is issued.

(d) The [Administrative Agency] shall suspend or revoke, or cause to be suspended or revoked, the certification of any mobile home which the [Administrative Agency] finds not to comply with this Act or the rules and regulations, or which has been manufactured pursuant to a mobile home system or compliance assurance program as to which approval has been suspended or revoked, or which has been altered after certification. Notices prohibiting sale or installation shall be posted on, and, if the manufacturer fails to comply with a corrective order, labels of certification shall be removed from any such mobile home until it is brought into compliance with this Act and the rules and regulations. Notice of suspension or revocation of certification shall be in writing with the reasons for suspension or revocation set forth therein. Appeals from suspensions or revocations shall receive timely review pursuant to Section 13 hereof.

Section 8. LIMITATION ON USE

(a) No mobile home manufactured after _____ shall be offerred for sale
(effective date)
for, sold for, delivered to, or installed on any site located in this State unless such mobile home has been certified pursuant to this Act. In jurisdictions with building codes, the manufacturer shall be permitted, in lieu of obtaining approval and certification by the [Administrative Agency], to apply for approval in accordance with the building code of general applicability, and in that event shall comply with such code.

(b) No mobile home shall be structurally attached to any permanent building or structure, unless the resulting combined structure complies with the applicable requirements for permanent buildings.

Section 9. EXCEPTION FOR SPECIAL ENVIRONMENTAL CONDITIONS

(a) The [Administrative Agency] shall limit an approval of a mobile home system by requiring each manufacturer to list on each mobile home manufactured pursuant to that mobile home system, the environmental conditions which the mobile home meets. No mobile home shall be installed on a site or occupied in an area of this State where special environmental conditions including, but not limited to, snow, wind seismic conditions, or temperature require special or different standards, unless the mobile home meets the standards. If a mobile home is to be altered from the approved mobile home system to meet the special environmental conditions, an amended mobile home system shall be submitted for approval.

(b) In jurisdictions having building codes, the local government shall prescribe requirements for special environmental conditions requiring special or different building standards for those parts of the site development, and other work reserved to local enforcement agencies. Such requirements shall be based on express findings setting forth reasonable cause therefor, and shall be subject to the [local appeals procedure].

(c) A local enforcement agency may propose special local environmental requirements for adoption pursuant to Section 5 of this Act, and unless the [Council] disapproves the proposal within 60 days of the date of its submission, or at the next meeting of the [Council], whichever is sooner, the proposal shall be deemed adopted.

Section 10. RECIPROCITY

(a) If the [Administrative Agency]finds that the standards for the manufacture and inspection of mobile homes prescribed by statute or rules and regulations of another State, or other governmental agency, meet the objectives of this Act and the rules and regulations, and are enforced satisfactorily by the other State, or governmental agency, or by their agents, the [Administrative Agency] shall accept mobile homes which have been certified by the other State or governmental agency, and assure that the appropriate label is attached thereto. The standards of another State shall not be deemed to be satisfactorily enforced unless the other State provides for notification to the [Administrative Agency] of suspensions or revocations of approvals issued by that other State, in a manner satisfactory to the [Administrative Agency], and so notifies the [Administrative Agency].

(b) The [Administrative Agency] shall suspend or revoke, or cause to be suspended or revoked, its acceptance or certification, or both, of certified mobile homes if it determines that the standards for the manufacture and inspection of such mobile homes of another State or other governmental agency do not meet the objectives of this Act and the rules and regulations, or that the standards are not being enforced to the satisfaction of the [Administrative Agency]. Notice of the suspension or revocation shall be in writing with the reasons set forth therein. Appeals from suspensions or revocations shall receive timely review pursuant to Section 13 hereof.

(c) If another State or governmental agency, or its agent, suspends or revokes its approval or certification, the acceptance or certification, or both, granted under this Section shall be suspended or revoked accordingly.

(d) In order to encourage reciprocity, the [Administrative Agency] and the [Council] shall cooperate with similar authorities in other jurisdictions and with nationally recognized codes and standards organizations in developing mutually acceptable methods and procedures for testing, evaluating, approving, and inspecting mobile homes, and otherwise encouraging their production and acceptance.

Section 11. INSPECTION

(a) Any person or firm manufacturing mobile homes, and desiring certification, shall agree in writing that the [Administrative Agency] has the right to conduct unannounced inspections at any reasonable time.

(1) The [Administrative Agency] shall periodically make, or cause to be made, inspections of the entire process of manufacture and certification of mobile homes produced under approved mobile home systems, and of mobile homes already certified, in order to verify the reliability of each compliance assurance program and inspection agency.

(2) In addition to other on-site inspection provided for in subsection (d) of this Section, the [Administrative Agency] shall inspect, or cause to be inspected, certified mobile homes it determines sufficiently damaged after certification to warrant such inspection, and to take action with regard to these mobile homes as authorized under Section 7 (d) hereof, or as otherwise necessary to eliminate dangerous conditions.

(3) No inspection entailing disassembly, damage to, or destruction of certified mobile homes may be conducted except to implement Sections 7 (d) or 11 (a) (1) and (2) hereof.

(b) The [Administrative Agency] shall authorize inspectors and other representatives to travel within or without the State for any purpose directly related to the administration and enforcement of this Act.

(c) The [Administrative Agency] may authorize inspection agencies to perform all or part of its inspection functions under this Section. The [Administrative Agency] may suspend or revoke such authorization for cause.

(d) In jurisdictions having building codes, local enforcement agencies shall inspect all mobile homes upon, or promptly after, installation at the site to determine if all applicable requirements and installation instructions have been followed. This inspection may include tests permitted by the rules and regulations and a visual inspection for obvious violations of the rules and regulations. Destructive disassembly of certified mobile homes shall not be performed in order to conduct such tests or inspections, nor standards more stringent than those promulgated pursuant to this Act be imposed. Nondestructive disassembly may be performed only in accordance with the rules and regulations. Local enforcement agencies shall cause the disposition of noncomplying mobile homes in accordance with applicable law and with the rules and regulations.

(e) In jurisdictions lacking building codes, the [Administrative Agency] may inspect mobile homes upon, or promptly after, installation in the manner prescribed in subsection (d) of this Section, and may perform the other functions prescribed or permitted therein.

Section 12. FEES

(a) The [Administrative Agency] shall establish a schedule of fees in connection with the administration and enforcement of this Act and publish it in the rules and regulations. The amount of the fees shall be based on the cost of performing functions undertaken pursuant to this Act. The effects of the fees upon the cost of mobile homes to residents of this State shall be considered by the [Administrative Agency] in setting and approving its own fees as well as the fees charged by evaluation and inspection agencies under contract to it.

(b) Fees charged by local enforcement agencies for activities conducted under this Act or the rules and regulations shall be based on the cost of performing such functions.

Section 13. APPEALS

The [Council] shall promptly hear and decide appeals brought by any person or party in an individual capacity, or on behalf of a class of persons or parties, affected by any rule, regulation, or decision pursuant to this Act. Final decisions by the [Council] are reviewable on appeal (or on successive appeals) in the [courts of competent jurisdiction].

Section 14. INJUNCTIVE RELIEF

The [Administrative Agency] may obtain injunctive relief from any court of competent jurisdiction to enjoin the offering for sale, sale, delivery, or installation of mobile homes, for which certification is required under this Act, upon an affidavit of the [Administrative Agency] specifying the manner in which the mobile homes do not conform to the requirements of this Act or the rules and regulations.

Section 15. STATUTORY CIVIL ACTION

Notwithstanding any other remedies available, any person or party, in an individual capacity, or on behalf of a class of persons or parties, damaged as a result of a violation of this Act or the rules and regulations, has a cause of action in any court of competent jurisdiction against the person or party to whom the label evidencing certification has been issued with respect to the pertinent mobile home(s), or, if it is not certified, against the manufacturer of the pertinent mobile home(s). An award may include damages and the cost of litigation, including reasonable attorneys' fees. [The cause of action created by this Section is subject to the same limitations period applicable in this State for causes of action of similar nature.]

Section 16. CRIMINAL PENALTIES

[(a) Any person who violates any provision of this Act, or of the rules and regulations, is guilty of a misdemeanor, and, upon conviction, shall be fined not more than ____ dollars ($_____), or imprisoned for not more than ____, for each offense, or both.

[(b) A separate violation is deemed to have occurred with respect to each mobile home not in compliance with the Act or the rules and regulations. Each day the violation continues constitutes a separate violation.

[(c) Any person who counterfeits or alters one or more labels, or who makes fradulent or misrepresentative use of one or more labels, or any person who knowingly makes use of one or more counterfeit or altered labels, is guilty of a felony, and, upon conviction, shall be fined not less than _____ thousand dollars ($____), nor more than ____ thousand dollars ($____), or imprisoned for not more than ____ years, for each offense, or both.]

Section 17. SEVERABILITY

[NOTE: Insert usual State severability clause here.]

Section 18. EFFECTIVE DATE

[NOTE: Insert effective date.]

SECTION BY SECTION ANALYSIS OF THE MOBILE HOME ACT

This proposed State legislation is designed to facilitate the production and utilization of mobile homes while assuring the safety of their construction, and to facilitate the use of new technologies, techniques and materials through application of uniform building codes based upon performance criteria and through uniform procedures for enforcing such codes.

Section 1: "Short Title," provides a convenient and descriptive name for the Act.

Section 2: "Legislative Findings and Intent," provides background for the legislation in terms of the police power of the State. Because conditions and policies differ from state to state, a range of suggestions is offerred. A State would use one or more of the suggested provisions, or write others appropriate to conditions in that State.

Section 3: "Definitions."

Subsection 3(b), "Administrative Agency," identifies the agency that will administer and enforce the Act.

Subsection 3(c), "Approved," eliminates the need to repeat the words "approved by the Administrative Agency" throughout the Act.

Subsection 3(d) defines "compliance assurance program" which refers to the efforts of both the manufacturer and the State to monitor the manufacturing process to assure that all certified units conform to the approved mobile home system. This should not be confused with the manufacturer's quality control program which refers to the manufacturer's effort to prevent the production of defective units, to maintain high standards of workmanship, to control costs, etc.

Subsection 3(e) defines "evaluation agency," the entity to which the State may delegate the functions of approving mobile home systems or compliance assurance programs, or of issuing labels.

Subsection 3(f), "independence of judgment," is intended to give States guidance in preventing conflicts of interest in evaluation and inspection agencies.

Subsection 3(g) defines "inspection agency" as the entity to which the State may delegate the functions of monitoring compliance assurance programs, certifying mobile homes, and issuing and attaching labels.

Subsection 3(h) defines "installation" for purposes of identifying at what point controls and inspections, etc., shift principally from State to local jurisdiction.

Subsection 3(i), defining "label," is for the purpose of establishing that the attachment of a label means that the labeled mobile home has been certified as having been manufactured in accordance with an approved mobile home system and inspected in accordance with an approved compliance assurance program.

Subsection 3(j), "local enforcement agency," is a referent for the agency or agencies of local government to which functions may be delegated under this Act.

Subsection 3(k), "local government," is a referent for the types of political subdivisions which different States may include.

Subsection 3(l) defines "mobile home" in such a way as to distinguish mobile homes from manufactured buildings and conventionally constructed buildings.

Subsection 3(m) defines "mobile home system" as the material which must be submitted for evaluation when approval is sought by the manufacturer, and against which, when approved, the actual mobile homes will be checked.

Section 4: "Building Code Council."

Subsection (a) creates the Council and defines its membership. The Council is established to assure that a broad range of expertise and interests is represented in the rule-making process and in hearing and deciding appeals.

Subsection (b) provides for gubernatorial appointment of members to the Council, and sets other standards related to their appointments.

Subsection (c) provides compensation for members of the Council.

Subsection (d) provides alternate methods of convening the Council.

Subsection (e) provides for the establishment of bylaws for the internal operation of the Council.

Subsection (f) provides for the Council to be a part of the Administrative Agency for administrative and budgetary purposes.

Subsection (g) is designed to preclude conflicts of interest on the part of Council members.

Subsection (h) provides for staffing for the Council.

Section 5: "Rules and Regulations."

Subsection (a) divides the authority for proposing, adopting, promulgating and enforcing rules and regulations between the Council and the Administrative Agency. Formal adoption of rules and regulations is allocated to the Council, while other functions related to rule-making, which involve lengthy and detailed staff work, are given to the Administrative Agency.

Subsection (b) requires the rules and regulations to set forth standards governing building systems and compliance assurance programs and encourages the adoption of performance-based standards and standards which are consistent with those of other States.

Subsection (c) provides that the Council must consider nationally recognized model codes and may adopt them. The Council is also required to maintain the rules and regulations current with the state of the art.

Subsection (d) states that modifications to such codes must be justified in writing and that modifications must be submitted to the appropriate national code writing organization for its consideration.

Subsection (e) calls for public hearings prior to the adoption of rules and regulations.

Subsection (f), which provides for the appointment of a Building Official, is intended to assure that a technically qualified person is in charge of the administration and enforcement of the Act.

Subsection (g) reserves zoning and similar matters to the jurisdiction of local government.

Section 6: "Approval."

Subsection (a) provides for the Administrative Agency to subject mobile home systems to engineering analysis and evaluation to determine whether mobile homes constructed in accordance with such systems will comply with the codes and standards adopted pursuant to the Act. Those which comply must be approved. Physical testing of prototypes is authorized if evaluation of the plans, specifications and documentation alone is inadequate to indicate whether replications of the mobile home system will comply with the codes and standards.

Subsection (b) authorizes the Administrative Agency to evaluate compliance assurance programs to determine whether they will reliably monitor the production of mobile homes.

Subsection (c) provides that approved mobile home systems and compliance assurance programs shall not be varied without authorization by the Administrative Agency, in order to assure that nonconforming mobile homes are neither built nor certified.

Subsection (d) authorizes delegation of the functions of approval of mobile home systems or compliance assurance programs and issuance of labels to evaluation agencies since some States have neither the personnel nor the finances to conduct the programs themselves. It also provides for suspension or revocation of such delegations for cause.

Subsection (e) provides for monitoring of evaluation agencies to review their performance.

Subsection (f) provides sanctions of suspension or revocation of approvals to support enforcement of the Act. Suspending or revoking approval of a mobile home system stops production of mobile homes. Suspending or revoking approval of a compliance assurance program prevents certification of the mobile homes.

Section 7: "Certification."

Subsection (a) provides for the Administrative Agency to certify mobile homes if they have been manufactured in accordance with an approved building system and passed inspection in accordance with an approved compliance assurance program. Certification is shown by the attachment of a label to a mobile home. Subsection (a) also provides that certified mobile homes are not to be altered between certification and the issuance of title or of a certificate of occupancy or their equivalent without submitting plans of the alteration for evaluation and approval and submitting the altered units for a physical inspection.

Subsection (b) authorizes delegation of the functions of certification and issuance of labels to inspection agencies and provides for suspension or revocation of such delegations for cause.

Subsection (c) provides for pre-emption of local and other State laws which govern matters covered by the Act. It also requires local enforcement agencies to issue building permits and certificates of occupancy for certified mobile homes.

Subsection (d) provides for certification to be suspended or revoked if necessary to enforce the Act.

Section 8: "Limitation on Use."

Section 8 provides that no uncertified mobile homes manufactured after a certain date may be installed in the State. It also prohibits structurally attaching mobile homes to permanent structures unless the resulting combined structure meets the requirements for permanent structures. This Section also gives the manufacturer the option of having his mobile homes approved by the local enforcement agency of the area in which they are to be located if they comply with the generally applicable building code.

Section 9: "Exception for Special Environmental Conditions."

Subsection (a) prohibits the installation of a mobile home in an area in which environmental conditions will impose greater demands on the mobile

home than it is designed to withstand. For example, a mobile home which can withstand the stresses expected in a 20-pound snow load area may not be placed in a 40-pound snow load area where it could become a safety hazard.

Subsection (b) requires that in jurisdictions having building codes, local governments must prescribe standards covering special environmental conditions found in their area for on-site work left to their regulation.

Subsection (c) allows local enforcement agencies to propose mobile home standards to meet special environmental conditions for mobile homes.

Section 10: "Reciprocity."

Subsection (a) provides for the Administrative Agency to accept mobile homes certified by another State if the statute and rules and regulations of the other State meet the objectives of this Act and are satisfactorily enforced.

Subsection (b) requires the Administrative Agency to suspend or revoke its certification or acceptance of mobile homes for other States if the statute or rules and regulations of the other State no longer meet the objectives of this Act, or are no longer enforced satisfactorily. Such suspension or revocation may be appealed under Section 13 of the Act.

If the Administrative Agency has accepted or certified mobile homes in reliance upon the certification of another State and that other State suspends or revokes its certification of them, Subsection (c) requires the Administrative Agency to suspend its acceptance or certification of those mobile homes also.

Subsection (d) requires the Administrative Agency to cooperate with similar agencies in other States in order to encourage reciprocity.

Section 11: "Inspection."

Subsection (a) requires manufacturers seeking certification to give permission to the Administrative Agency to conduct inspections. It further provides for the Administrative Agency to inspect the entire manufacturing process as well as already certified mobile homes to monitor the reliability of compliance assurance programs and inspection agencies. The Administrative Agency is also directed to inspect certified mobile homes if they have been damaged or if it is otherwise necessary to eliminate dangerous conditions.

Subsection (b) allows the Administrative Agency's inspectors and other representatives to travel as needed to enforce the Act.

Subsection (c) authorizes the Administrative Agency to delegate its functions under this Section to inspection agencies. It also provides for suspension or revocation of such delegation for cause.

Subsection (d) requires that in jurisdictions which have building codes, local enforcement agencies must inspect mobile homes when they are being installed or shortly afterward. The types of tests which may be performed are set forth and destructive disassembly of certified buildings or components by the local enforcement agency is forbidden.

Subsection (e) requires that in jurisdictions without building codes, the [Administrative Agency] may perform the on-site inspections.

Section 12: "Fees."

Subsection (a) requires the Administrative Agency to establish and publish fees for functions performed under this Act. The amount of the fees charged by the Administrative Agency and by inspection and evaluation agencies under contract to it is to be based on the cost of performing the functions, and is to take into account the effects of the fees on the cost of buildings.

Subsection (b) requires that fees charged by local enforcement agencies for functions performed by them under this Act must be based upon the cost of the functions performed.

Section 13: "Appeals."

This Section requires the Building Code Council to hear and decide appeals brought by persons or classes of persons affected by any rule, regulation or decision made pursuant to this Act. The Council's decisions are reviewable in courts of competent jurisdiction.

Section 14: "Injunctive Relief."

This Section authorizes the Administrative Agency to request a court to prevent the offering for sale, sale, delivery or installation of manufactured buildings or components which are required to be certified, but which do not meet the requirements of the Act or the rules and regulations.

Section 15: "Statutory Civil Action."

This Section authorizes individuals harmed as a result of a violation of the Act or the rules and regulations to seek relief in a court against a manufacturer or against a person to whom a label of certification has been issued for the pertinent mobile home.

Section 16: "Criminal Penalties."

This section creates categories of misdemeanors and felonies for certain violations of the Act or of the rules and regulations, and provides penalties for such violations. The Section is placed in brackets so as to allow each State to adapt the provisions to reflect the appropriate State penalties.

Section 17: "Severability."

Section 18: "Effective Date."

These Sections are designed to accommodate the State's standard severability and effective date clauses.

THE COUNCIL OF STATE GOVERNMENTS
IRON WORKS PIKE
LEXINGTON, KENTUCKY 40505

July 9, 1973

Mr. Fred D. Dent, Secretary
U. S. Department of Commerce
Washington, D. C. 20530

COPY

Dear Secretary Dent:

The Council of State Governments' Committee on Suggested State Legislation, at its annual meeting held June 21-22, 1973, in Seattle, Washington, approved three model acts for inclusion in the 1974 Suggested State Legislation, Volume XXXIII. These are the Model State Building Code Act, the Model Manufactured Building Act, and the Model Mobile Home Act.

Although these model acts were sent to us for consideration by the National Conference of States on Building Codes and Standards, we are aware that they are the product of a joint effort by many Working Groups in the building field. Knowing the amount of work which went into their development and the need for such model legislation, we are pleased they will be published for wide dissemination throughout the States.

We are informed that the Department of Commerce participated in the development of these suggested act along with the Department of Housing and Urban Development. On behalf of the Council of State Governments it is my pleasure to express our appreciation for the assistance rendered by your Department in this important cooperative effort.

Sincerely,

John K. Hickey
Secretary, Committee on
Suggested State Legislation

JKH/lh

bcc: Mr. Kern E. Church
Mr. Thomas J. Graves
Mr. Harry Stone
Mr. Brevard Crihfield

July 9, 1973

COPY

Mr. James T. Lynn, Secretary
Department of Housing and Urban Development
Washington, D. C. 20530

Dear Secretary Lynn:

This is a follow up to your letter of April 27, 1973, and my reply of May 2 concerning suggested state legislation in the building field.

The Council of State Governments' Committee on Suggested State Legislation, at its annual meeting held June 21-22, 1973, in Seattle, Washington, approved three model acts for inclusion in the 1974 Suggested State Legislation, Volume XXXIII. These are the Model State Building Code Act, the Model Manufactured Building Act, and the Model Mobile Home Act.

Although these model acts were sent to us for consideration by the National Conference of States on Building Codes and Standards, we are aware that they are the product of a joint effort by many Working Groups in the building field. Knowing the amount of work which went into their development and the need for such model legislation, we are pleased they will be published for wide dissemination throughout the States.

I wish to express my appreciation for the excellent cooperation and assistance rendered by members of your Department. We especially appreciated the section by section analysis of the draft acts which was done by your Office of General Counsel. I would also like to add a special note of appreciation for the helpful assistance provided by Mr. S. Mark Lindsey, Office of General Counsel, who attended the Seattle meeting and explained many technical provisions of the suggested legislation.

Sincerely,

John K. Hickey
Secretary, Committee on
Suggested State Legislation

JKH/lh

bcc: Mr. Kern E. Church ✓
Mr. Thomas J. Graves
Mr. Harry Stone
Mr. Brevard Crihfield

Statement by Louis P. Spitz
Executive Director, American Association
of Motor Vehicle Administrators
S. 1348
(Filed) August 15, 1973
Senate Committee on Banking
Housing and Urban Affairs
Hon. John Sparkman, Chairman
Hon. Robert A. Taft, Jr., Member

The American Association of Motor Vehicle Administrators (AAMVA) deeply appreciates Senator Taft's letter of June 25th, inviting our Association's comments on the proposed National Mobile Home Safety Standards Act of 1973, and the subsequent Amendment 147, which would provide warranty protection to the consumer.

In order to place this commentary in an appropriate persepctive, the AAMVA is the association of state and provincial officials responsible for the administration and enforcement of motor vehicle and traffic laws in the United States and Canada. Included among its membership are the chief motor vehicle and traffic enforcement officials in all 50 states, the District of Columbia, Puerto Rico, the 10 Canadian provinces and the Yukon Territory.

Our Association currently is in its 41st consecutive year of operation. Its basic objectives are to promote uniform laws and model programs designed to expedite the movement of people and goods over our vast North American highway system.

AAMVA's programming is divided into four basic categories:

--Driver Services
--Vehicle Services
--Equipment Approval and Product Safety
--And, Administrative Services--including Fiscal, Legal and Communications programs.

This commentary is addressed to specifics related to S.1348 and to subsequent amendment 147. It also conveys a brief explanation of a pertinent AAMVA program, which is not referenced in the bill; nor has it been covered in any previous testimony, at least to the present knowledge of AAMVA.

Because of the limited time available to prepare this statement, the AAMVA was unable to poll its member jurisdictions for individual responses to the proposed act and amendment. Thus, the comment herein contained is necessarily limited to the expression of a projected consensus of our members, based upon existing AAMVA policy, as well as the personal experiences of me and my staff in motor vehicle administration.

But I am confident that the motor vehicle administrators of the United States support the overall concept and rationale of the proposed National Mobile Home Safety Standards Act of 1973, including Senator Taft's amendment, to provide warranty protection to the consumer.

From the motor vehicle administrators' viewpoint there has long been a dilemma concerning mobile homes. In virtually all of the 50 states the motor vehicle administrator is the principal state official responsible for overseeing the vehicular attributes of mobile homes. However, at the same time, the vehicle administrators have tended to resist--to be extremely reluctant--to become involved in the promulgation of standards or regulations applicable to the living attributes of mobile homes.

Thus, it appears that the proposed National Mobile Home Safety Standards Act of 1973 could become a remarkable piece of legislation, if it is amended to recognize the unique administrative needs of the motor vehicle administrator. It could clearly resolve the problem of the dual nature of the mobile home: Namely, it is a vehicle; it is a residence.

In previous testimony and statements filed with the committee relative to S.1348, AAMVA notes disagreement among the witnesses as to the definition of a mobile home. It is significant to note, that as presently defined in the bill and in alternative suggestions that have been posed, that the definition would not preclude the inclusion of certain travel trailers and certain "fifth wheel" travel trailers.

There are certain times when a mobile home most certainly fits the criterion of a vehicle. It has a chassis, suspension, wheels, tires, highway lighting and reflective devices, and a towing hitch. And, in most instances, a mobile home travels on the public highway from its point of origin to its destination site. Thus, from the viewpoint of the motor vehicle administrator, it is logical that all applicable vehicle standards and regulations should apply during such a period of highway use.

In view of this, AAMVA respectfully suggests that Sec. 102, Para (6) of S.1348 (page 3, lines 5-9) be amended to include the following:

> (6) "'Mobile Home' means a structure, designed primarily as a permanent dwelling, assembled on a chassis, with approved suspension, wheels, tires, highway lighting and reflective devices, and towing hitch..."

I wish to address myself, very briefly, to Senator Taft's amendment number 147, which would require that warranty protection be afforded the owner of a mobile home. I agree with the sentiments voiced repeatedly in other statements to the committee, that the lack of such warranty protection in the original language of S.1348 is a serious omission, and that the amendment is appropriate.

The AAMVA would pose one additional suggestion which we believe would further ensure that precise identification of a given mobile home could be contained in all records pertaining to it including: (a) the warranty record; (b) the manufacturer's certificates of origin; (c) invoices; (d) state registration records; (e) state title records; and (f) mobile home recall notification program records.

Such a precise identification can be achieved by the utilization of a meaningful Uniform Vehicle Identification Numbering System--a practice which, and regretably to our way of thinking, is not utilized by the mobile home industry at this time.

In January, 1970, AAMVA launched a study of various alternative Vehicle Identification Numbering (VIN) systems. This study led to the formulation of a specific recommended program, which was approved by the AAMVA Regional and National Conferences held that year.

Since 1970, our Association has worked, cooperatively, on the VIN subject interest with the Society of Automotive Engineers (SAE). In each of several areas of interest we have worked toward appropriate consideration for development of SAE Recommended Practices (Standards). The respective areas of interest pertain principally to various classifications of motor vehicles.

We feel that the track record of accomplishment has been noteworthy. Of the eight areas where AAMVA has requested development of Recommended Practices, to date: Three have been issued, one approved for issue, one nearing completion, and three others are in process. The three SAE Recommended Practices already issued include:

--Recommended Practice SAE-J272, which outlines the basic criterion for all vehicle identification numbers. (The material in SAE-J272 is the basis for the remaining Recommended Practices in the series);

--Recommended Practice SAE-J273, which includes the basic criterion established in SAE-J272, plus incorporation of the identification attributes which apply only to passenger cars;

--Recommended Practice SAE-J218, which denotes the basic terms of passenger car terminology and definitions utilized by motor vehicle agencies, government and industry. (This is critical to standardize information systems for data transmission.)

In addition, a new--yet undesignated SAE Recommended Practice--has been approved and will be published soon. It related to VIN systems for fold-down tent campers, travel trailers pulled primarily by passenger cars, pick-up truck campers, recreational boat trailers, and pick-up truck caps. Also nearing completion is a Recommended Practice which will denote the basic terms of truck terminology and definitions used by motor vehicle agencies, government and industry.

Probably much more significant from the perspective of this committee is the fact that among the other AAMVA/SAE VIN system projects scheduled to follow is a Recommended Practice relating specifically to mobile homes.

Therefore, AAMVA believes that the Uniform Vehicle Identification Numbering System definitely should include mobile homes. Furthermore, we believe that the VIN should be the principal means for identifying a specific mobile home, as well as all of the documents of record relating to it.

The AAMVA is convinced that a VIN system that includes mobile homes would be in the best interests of everyone involved:

--The mobile home owner;

--The state and federal agencies administering the movement of mobile homes on the public highways;

--And, even the mobile home manufacturers, themselves.

Therefore, we believe that a requirement that the manufacturers adopt such a system would be in order.

AAMVA would like to thank Senator Taft for providing this opportunity to comment on this proposed legislation. If any question arises or there is a need for additional information from our Association, AAMVA will be pleased to cooperate.

foremost
INSURANCE COMPANY
POST OFFICE BOX 2450
GRAND RAPIDS, MICHIGAN 49501

August 7, 1973

For Presentation to
Housing and Urban Affairs Sub-Committee
Senator John Sparkman
c/o National Association of Independent Insurers
Mr. John J. Nangle
Watergate Building
Washington D.C.

Dear Senator:

I am speaking on behalf of the Mobile Home Committee made up of a dozen or so companies who are members of the National Association of Independent Insurers and comprise the major companies within that organization which write mobile home insurance extensively throughout the country. It has been estimated that NAII member companies account for approximately 80% - 85% of the mobile home insurance premiums written throughout the United States.

The purpose of our discussing with your Committee the mobile home industry and the mobile home product is not necessarily in the insurance vein, however, but in the structural areas to which your Committee has addressed itself.

Considerable concern over the last few years has been expressed over the construction standards applicable to mobile homes and how those standards should be improved to improve the safety and livability features of this important product.

I'd like to say at the beginning that it is necessary at all times in analyzing the mobile home as a product, to analyze its reasons for popularity in our country.

The mobile home answers a very serious housing need that developed shortly after and during World War II and exists to an even greater degree today. The mobile home has answered this need. Therefore, it is necessary for the mobile home manufacturer to address himself to the fact that while he must build as safe a product as possible, he must also remember that the cost factors are the primary reason he is in business. The manufacturer's goal is to produce a safe and comfortable home that is still acceptable to the millions of Americans who have found the mobile home an attractive solution to their housing needs. The present mobile home is a good product. There is a considerable lack of information concerning this product. To my knowledge, most

mobile homes being manufactured today have, for example, not only a main door towards the front or middle of the mobile home, but they also have escape panels and knock-out windows in cases of emergency in rear bedrooms, etc. Considerable improvement has been made over the past five years in the construction of the mobile home with the cooperation of the insurance industry serving and insuring and specializing in mobile home insurance and in cooperation with the mobile home manufacturers themselves.

It is a movable product. Therefore, it has problems of leakage after it's set up at the insured's choice location, but such minor problems are easily corrected. There are many areas that produce unnecessary loss in mobile homes. In the insurance industry, through the National Association of Independent Insurers and independently on the part of many insurance companies, great strides have been taken to improve that condition. One of these is in seeing that mobile homes are tied down. Recently, the State of Florida passed a Tie Down Law that is now being enforced and will be in effect on all mobile homes as of April 1, 1974. One of the members of the NAII, Foremost Insurance Company, anticipates windstorm losses in excess of $10,000,000 during the year 1973 on mobile homes alone. It is their estimate that better than 70% of those losses could be saved by almost any system of tie.downs. Sophisticated but inexpensive systems of tie downs are readily available throughout the country. Foremost, as well as other companies within the National Association of Independent Insurers, have pressed for such legislation on a statewide basis.

Several Senators and Representatives of Congress have mentioned the fire peril or the fire hazard which is extensive in a mobile home. Most interiors of mobile homes are paneled and therefore, lend themselves to fire spread. The manufacturers, however, have continually increased the fire retardancy gradings of the materials used in mobile homes. They've increased the fire precautionary measures of lining the areas in which flame exists, such as the furnace and water heaters, with fire retardant materials. Much of this improvement is built into the construction codes of each state. The National Fire Protection Association publishes what they call their ANSI Code. This Code deals with the construction standards of plumbing, wiring, heating and actual construction of mobile homes and also provides for anchoring mobile homes once they are located at the sight of the insured's choice. In our opinion, a simple Federal rule requiring that each state pass the National Standards Act (it has already been passed and is in effect in forty-one states) would give sufficient control of this industry to the state level.

There are proponents of the mobile home industry that feel a single standard throughout the country would be desirable since mobile homes are movable, and to effect savings in the manufacturing process. If the

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ANSI Codes are passed in each state and become a minimum standard under Federal Law, a uniformity of construction could easily and inexpensively be adhered to by the mobile home manufacturers, without, in our opinion, serious increases in the retail prices.

In our opinion, it is not necessary to go to additional expensive studies of this product which would be running parallel to studies being made by the people within the industry itself, in order to see that mobile homes sold on the open market meet prudent minimum standards of construction and safety features. All the Federal Government need do would be to pass a law requiring that each state accept standards at least equal to the American National Standards Institute and promulgated by the National Fire Protection Association. The Standards Committee which draw these basic structural standards and the revisions to them, are made up of members of the insurance industry, construction industry, National Weather Service, the mobile home industry and engineers of experience and knowledge.

We sincerely hope this paper has been of some help to your Committee in determining a prudent way of action for our Federal Government.

Thank you for the opportunity.

Sincerely,

James W. Jarrad
Vice President
Foremost Insurance Company
Vice Chairman
National Association of
Independent Insurers
Mobile Home Committee

Senator PROXMIRE. So obviously if there is something wrong, very wrong about a plant operation, that is subjected to being remedied in a week or two, you are notified in advance, and the manufacturer simply corrects that and goes his merry way. Or if you have a small inspection staff, and you can only get around to inspecting a firm very rarely, then they would go on in a way that would not provide protection, but would, of course, be low cost.

Mr. CHURCH. You are entirely correct.

Senator PROXMIRE. Until they are notified there will be an inspection. Only then would they make the improvement. Is that right?

Mr. CHURCH. You are correct. North Carolina, in monitoring our agencies that do the work, when we go to Alabama, Georgia, Florida, or Tennessee, wherever we go, send an inspector to look at the plant to see that our agency is doing the work; we look at it as an administrative procedure. We would rather monitor 4 or 5 agencies than to try to monitor the 200 plants or so.

So in making these inspections we find in those States that provide for authorization to inspect and don't require inspections, don't require plan approvals, we find the manufacturer is manufacturing at two levels of compliance, and the exterior wall members, the roof members, everything is about half what it is for North Carolina. They write "North Carolina" right on the unit itself that comes into our State. They put this label on it, but they put as many as five State labels and the self-certification label on the other units and they are way below the standard.

Senator PROXMIRE. Doesn't that make it difficult for North Carolina mobile home manufacturers to compete?

Mr. CHURCH. No, sir.

Senator PROXMIRE. To compete on the out-of-State business. How can a North Carolina manufacturer sell his mobile homes in competition with somebody in another State?

Mr. CHURCH. They could not. I mean, you are right.

Senator PROXMIRE. During the Easter recess I worked in a packing plant, and one of the things I noticed there was they had—this is a big packing plant—they had 800 employees but they had over 30 Federal inspectors on the job all of the time, right on the assembly line, so every hog was examined by 30 different inspectors, every hog.

Now of course that is to protect the public.

Mr. CHURCH. We don't have that much.

Senator PROXMIRE. That is right. That is to protect the public from being contaminated by food that would be a danger to their health.

But in this case how costly is this kind of inspection and how do you know it is adequate?

Mr. CHURCH. It averages less than $10 per unit. The cost of the inspection to the manufacturer.

Senator PROXMIRE. Who pays it?

Mr. CHURCH. The manufacturer.

Senator PROXMIRE. It is not paid by the State, the taxpayers, it is paid by the manufacturer?

Mr. CHURCH. Yes. The true cost is what he has to do to meet the standard. This varies from about $50 per unit up to $400 or $500 or as much as $600, depending on how far he was from the standard.

There are 15 States that accept the North Carolina units labeled under our system, Senator.

Senator PROXMIRE. Now, Mr. Bono, as the engineer, are you satisfied with the North Carolina system, that it is sufficient to protect the consumer fully and completely?

Mr. BONO. I think the North Carolina system, and the system has been duplicated in other States, is one of the finest methods of regulating mobile homes that we have encountered.

Senator PROXMIRE. Is it sufficient so that you can say that every mobile home that leaves the plant will meet the standards when it leaves the plant?

I take it that is one of your principal objections to this bill, that it would permit people to sue for damages and that kind of recourse, but that you say in your testimony that there is no assurance that when the mobile home leaves the plant it meets the standards.

Is that right?

Mr. BONO. Well, the degree of inspection that we presently are geared to do is to have an inspector in the plant frequently enough so that he can examine some portion of every mobile home that goes down the production line. That is quite a frequent inspection in comparison with the inspection of other safety products.

Senator PROXMIRE. What I am getting at, I don't want to be a perfectionist on this, you fellows have gone much further than this bill would provide, and much further than perhaps any other State, but I am wondering if it is far enough.

Senator Brock said he wanted to make his bill as strong as it could be, so the strongest States would be in compliance and would not feel they were giving up any protection.

Mr. BONO. Well, there is no system that will ever reach perfection in examining a mobile home. A mobile home is very complex, even though it looks simple, a complex product.

Senator PROXMIRE. As I understand it, you have a spot system in which one part of the home would be inspected for each mobile home that leaves, but it would be a different part of it.

In other words you would inspect the walls in some cases, inspect the plumbing in other cases, the wiring in others. Is that right?

Mr. BONO. Yes. And this seems particularly amenable to a production-line type of operation.

Senator PROXMIRE. Of course this would mean that while there may be some that don't quite meet the standards, the overwhelming majority would, and you would be able to quickly spot a situation if there were any comprehensive evasion of the standards?

Mr. BONO. And if that is the case, we will know, because there are many mobile homes that are going out with the Underwriters Laboratory label on in the last 3 years and there will be more this year.

We will increase our inspections if needed.

Senator PROXMIRE. What about the sale of credit life insurance of mobile homes? Is that regulated by North Carolina statute or law or practice, do you know?

Mr. INGRAM. Yes, by North Carolina general statute, chapter 58, and by regulation.

Senator PROXMIRE. Would you let us know what the regulations are.

Mr. INGRAM. I will send you a copy of the North Carolina Regulations (see p. 1127).

Senator PROXMIRE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, gentlemen.

Mr. INGRAM. Senator, if I might add one thing, New Jersey—and Senator Williams could brief you on this—has the third-party agency type system similar to North Carolina.

Massachusetts, Senator Brooke can advise you, has just adopted something similar to our system, I believe. And Ohio, they have not implemented theirs yet. Delaware and Connecticut I believe are in their infancy.

The other alternative which we mentioned was California, which has its own inspection system. There they have, according to Deputy Church, approximately 100 plants, but they have the manpower to accomplish the inspections, about 36 inspectors. So that is the alternative to the independent agency approach, that you have the manpower in the State to do it.

Senator PROXMIRE. Mr. Ingram, you are not only a very competent commissioner, but you are also an excellent politician. You have just given us a majority of our committee, right down the line of the States.

Mr. INGRAM. Senator, we were hopeful we could accomplish the same thing with this committee that Deputy Church did with the legislative committee in North Carolina's General Assembly, in which they had a bill that was substituted for a committee bill, which was much stronger and of which North Carolina is very proud.

The CHAIRMAN. Thank you very much, gentlemen.

The next witness is Mr. John M. Martin, president, Mobile Homes Manufacturers Association.

STATEMENT OF JOHN M. MARTIN, PRESIDENT, MOBILE HOMES MANUFACTURERS ASSOCIATION

Mr. MARTIN. Good morning, Mr. Chairman.

The CHAIRMAN. We are very glad to have you, sir.

Let me throw out just this word of warning: It is almost 12 o'clock, the Senate is in session, and we don't know just how soon we may be called over. So if we could move along, it would be appreciated.

Mr. MARTIN. Yes, Mr. Chairman. We have copies of this testimony which we submitted to the committee, and I would like it inserted in the record, and I will cover just a few parts of it (see p. 1069).

We would like to make observations on some of the comments made today and clear the air on a couple of the provisions of the Brock legislation as we understand it.

First, the Mobile Homes Manufacturers Association, the Trailer Coach Association on the west coast, and the Southeastern Manufactured Housing Institute all support the basic concept of S. 1348.

There are amendments included in our testimony that we would like the committee to consider.

It is unfortunate that you have a piece of legislation that people generally favor as far as regulating an industry, and yet the industry is subjected to a biased presentation such as the "60 Minutes" program, that CBS documentary, so-called, that was presented this morning.

When that was presented originally, it was biased, because prior to the preparation of the program, CBS had all of the answers to all of the questions they raised. The film that was shown this morning also had other excerpts taken from it that the committee did not see this morning and which will not be included in the record, I am sure.

The thing that concerns us, when people talk about fire safety is that the mobile home industry asked for regulation and went into all of the States throughout the country and asked the States to adopt State laws to regulate the industry.

This began with the first legislation in 1958 by the State of California. It has now grown to 36 States doing the same thing.

The mobile home industry went into many States that didn't even want to look at regulation, because they didn't want to be bothered with it. But the industry went ahead to get the regulation passed and then we get people coming in in the last 2 years saying that it has been done wrong.

The industry would like to get out of self-certification, but until we have strong State enforcement programs throughout the country, governed by one Federal regulation and one Federal standard, then the mobile home industry is still going to be involved in self-certification. We want to be out of that part of the business.

One thing I would like to clear up as far as State enforcement is concerned in this legislation, the industry feels that the North Carolina inspection program is an excellent one.

Conversely, we also feel that the State of California inspection program is an excellent one. We think that the provisions of this legislation enable the State to enforce the industry, to regulate the industry by following merely the guidelines of the Department of Housing and Urban Development.

We are not asking, I don't think Senator Brock and the other sponsors of the legislation are asking, that that power be taken away from the States. We feel that the State enforcement is closer to protecting the consumer, and we favor that approach.

It has been determined and stated by several, including several members of the committee, that the mobile home is a needed commodity. It is housing that many people can afford. For that reason I think the committee has to keep in mind that one standard is essential.

If you are going to provide housing for lower income people, you must do it on a production line basis. And we agree with the concept of the legislation, and with the comments of other witnesses that it must be quality construction and done in a factory. But any time you provide variations, you will face the same thing that the stick-builder faces today, with a median sale price in excess of $31,000.

The people you are supposedly trying to protect cannot afford to buy that housing. We think it is essential to have one standard.

The question was raised that there might be a difference by region or by State as to the type of construction necessary.

Let me point out that if we are going into the State of Wisconsin, as an example, where they have a snow load factor, versus the State of Florida, the two that were compared, I think there can be and has already been presented a roof load factor that can take care of the situation in both States, so that the people in Florida have their pro-

tection and the people in Wisconsin have their protection.

To come out and say we are going to have 50 variations of roof load or anything else will be difficult not only for the industry, but for the consumers.

I would like to point out that the "60-Minutes" film, talked about A 119 as the manufacturers code. It is not the manufacturers code. Mr. Bono from Underwriters Laboratory pointed out that it is the consensus standard. MHMA happened to serve as the Secretariat.

The National Bureau of Standards, HUD, and other Federal agencies serve on the committee that developed that standard.

In "60 Minutes" they talked about the longevity of mobile homes. They didn't point out, they had a dramatic presentation of the fire in Phoenix, but they didn't point out that immediately after that Phoenix adopted A 119 as the local requirement and the State has since done the same thing.

The other point that should be made on that one particular fire is that mobile home was a 1955 travel trailer, built prior to the adoption of standards by anybody in the industry. It was because of things like that that the industry went into the standards program and tried to get the States, and now the Federal Government, to get involved.

We feel very strongly that the industry has tried over the years to improve the standards situation, to improve the quality of production and to provide lower cost housing.

We appreciate the criticisms and suggestions as long as they are presented in a constructive manner. And we feel that with the legislation before us, S. 1348, that it will enable the industry to provide the housing that it has been providing, enable the customer to be protected because of the method of construction, and enable the States to continue to enforce the regulations such as North Carolina and California and a few others are doing.

The essential part of any legislation is to be sure that the provisions are enforced. In many States this is not the case and the industry has tried to get more enforcement, has gone in with appropriations bills to help get money for those State agencies, even at a per unit cost to help pay for the programs.

So, we feel that the industry has gone a long way. We are asking for an objective look at providing a very uniform system of building mobile homes.

We would also like to briefly comment, Senator, that most of the time is being spent on S. 1346, but we would like to point out we would like to support the provisions of S. 898 and 899, which cover financing terms and which have been presented basically by other witnesses.

With that, I am open for questions, Senator.

The CHAIRMAN. Thank you very much. As a matter of fact, I think the hearing this morning has indicated that we have got a wide range of opinion and it is going to take a good bit of work to work out a satisfactory piece of legislation.

Would you not agree with me on that?

Mr. MARTIN. I do agree with you, Senator. I think it is going to take a strong look at it. I think the principles of S. 1348 are excellent. I would prefer that we keep everything on a local basis, as far as enforcement. I think this enables North Carolina and California to keep

their good sound systems. And all it does is make the other States that don't have sound programs come up to their level. That we support.

The CHAIRMAN. Let me ask you, with reference to this film that was shown this morning, did the mobile home industry feel that the film was unfair?

Mr. MARTIN. Yes, sir. The mobile home industry felt that having gone through the presentation with CBS, 4 hours of discussion were held with the CBS people, Morley Safer and Jim Jackson, the producer, all of the questions raised throughout the entire presentation were adequately answered and even the producer agreed we had answered many of the questions in their minds.

There were industry reactions to the film also included in the presentation. The actual filming of the industry's position took 45 minutes. They used 90 seconds on the CBS program.

There are complaints currently filed with the FCC on the bias of CBS on this for various reasons, not by the association, but by independent people in the industry.

One is a publisher who has challenged the CBS presentation as being biased because of conflict of interest.

The CHAIRMAN. By the way, the editor and publisher of the Mobile Home News wrote a letter asking for equal time from the Federal Communications Commission to answer the CBS presentation. That was denied by the FCC.

At the request of Senator Proxmire, this letter will be printed in the record.

[The letter and transcript of the film follows:]

FEDERAL COMMUNICATIONS COMMISSION,
Washington, D.C., June 22, 1973.

Mr. CLIFF WILMATH,
Editor and Publisher,
Mobile Home News, Inc.,
Miami, Fla.

DEAR MR. WILMATH: This is with reference to your fairness complaint filed with the Commission on April 12, 1973 against CBS concerning its March 5, 1973 "60 Minutes" program which dealt, in part, with mobile home living and the mobile home industry. You allege that this program presented a "biased report on mobile homes"; that on eight occasions during the program statements were made by CBS News Correspondent Morley Safer, and by others in response to questions put to them by him, which did not present a true picture of the industry, and that an opportunity to present their views was not afforded to those knowledgeable in the mobile home industry. You requested CBS to afford you "equal time" to respond to this program.

CBS responded to a March 1, 1973 request by you for "equal time" on April 9, and stated that "although the 60 Minutes segment focused on the problems faced by mobile home owners, nowhere in the broadcast was it stated or inferred that the problems discussed were typical of the entire industry. Indeed, it was specifically stated that there are many fine mobile homes manufactured in the United States." In addition, CBS had stated in response to a November 30, 1972 Commission inquiry (regarding another aspect of your complaint) that "CBS News Correspondent, Morley Safer, stated during the program that 'it should be pointed out that most of the mobile homes produced in this country are sound; at the very least they conform to the manufacturer's own specifications.'" In addition, CBS stated that two letters critical of the March 5, 1972 "60 Minutes" program were aired on the March 12, 1972 edition of "60 Minutes." CBS concluded its April 9, 1973 response to you by stating that "we are of the view that the "60 Minutes" segment in question did not give rise to any fairness doctrine obligations . . . and therefore, we respectfully reject your request for time to reply."

The fairness doctrine obligates a licensee presenting one side of a controversial issue of public importance to afford reasonable opportunity in its overall

programming for the presentation of contrasting views. It does not require equal time, and both sides need not be given in the same broadcast or series of broadcasts. Furthermore, no particular person is entitled to appear on the station, since it is the right of the public to be informed which the fairness doctrine is designed to assure rather than the right of any individual to broadcast his views.

With respect to the sufficiency of fairness complaints, the Commission has consistently distinguished between the question of whether a reasonable opportunity has been afforded for the presentation of contrasting views and allegations which challenge the "truth" or accuracy of broadcast material or contend that the licensee has deliberately slanted or distorted its news coverage or other public affairs programming. With reference to complaints disputing the "truth" or accuracy of program material, it has been stated:

"The Commission has never examined news coverage as a censor might to determine whether it is fair in the sense of presenting the "truth" of an event as the Commission might see it. . . .

Rather, we shall consider the overall question of whether reasonable opportunity for contrasting viewpoints was afforded with respect . . . controversial issues referred to in the complaints we have received. *Letter to ABC, et al*, 16 FCC 2d 650, 655–656 (1969)."

With respect to the allegation that CBS presented a "biased report on mobile homes" we refer you to our letter of February 12, 1973 where we stated:

"[I]n order for the Commission to commence action in this sensitive area it must receive significant extrinsic evidence of such deliberate conduct on the part of the broadcaster in the form, for example, of statements from persons who would have to be in a position to know what news had been deliberately distorted or suppressed."

Your allegation of "bias" merely disputes the truth and accuracy of the material presented and again fails to set forth any extrinsic evidence of deliberate distortion which the Commission requires before it can take action in such matters. Therefore, further consideration of this point is not warranted.

With respect to your allegation that CBS violated the fairness doctrine, it should be noted also that the Commission reviews complaints to determine whether the licensee can be said to have acted reasonably and in good faith. In addition, the fairness doctrine does not require a line by line analysis and balance as to every statement made in discussing a controversial issue of public importance. In this regard, the Commission in *Letter to NBC, (AOPA Complaint)* 25 FCC 2d 735 (1970) stated:

"Clearly the licensee must be given considerable leeway for exercising reasonable judgment as to what statements or shades of opinion require offsetting presentation. . . . A policy of requiring fairness, statement by statement or inference by inference, with constant Governmental intervention to try to implement the policy, would simply be inconsistent with the profound national commitment to the principle that debate on public issues should be 'uninhibited, robust, wide-open.' "

A review of the program script indicates that CBS presented views favorable to mobile home ownership. This is evidenced by interviews with the President of the Mobile Manufacturer's Association, Mr. John Martin, and a mobile home dealer, Mr. O. R. Bennett. CBS also noted in its response that during the March 12, 1972 edition of "60 Minutes" the program moderators read two letters critical of the mobile home exposé.

In view of the foregoing, and assuming that a controversial subject of public importance was involved, it does not appear that CBS acted unreasonably or in bad faith in its decision to deny you time to respond. Accordingly, no further Commission action appears warranted.

Staff action is taken here under delegated authority. Application for review by the full Commission may be requested within 30 days by writing the Secretary, Federal Communications Commission, Washington, D.C. 20554, stating the factors warranting consideration. Copies must be sent to the parties to the complaint. See Code of Federal Regulations, Volume 47, Section 1.115.

Sincerely yours,

WILLIAM B. RAY,
Chief, Complaints and Compliance Division.

[Reprint of transcript of "60 Minutes" as broadcast over CBS Television Network, Sunday, March 5, 1972, with CBS NEWS Correspondents Morley Safer and Mike Wallace]

SAFER. It's an American phenomenon, the mobile home. It's a reflection of our history: the modern covered wagon for the modern itinerant family. If you live in New York and spend your time here, you barely know they exist. But if you travel to Arizona or Kansas or Florida, as we did in the course of this report, you find the mobile home park as ubiquitous and American as the gas station or hamburger stand. More than seven million Americans live in mobile homes and it's a phenomenal growth industry. Almost half a million homes were made last year; more than that will be made this year. 60 MINUTES decided to take a look at the phenomenon and this is what we found.

From Key Biscayne in the Southeast to San Clemente on the Pacific Coast, the sight of the trailer is to be seen across the land. "Trailer" is really not what they're called. The current euphemism is "mobile home," but they are rarely mobile. They are houses put temporarily on wheels in order to get them from factory to mobile home park. Some people regard these places as a blight on the countryside: acres of live-in shoe boxes covering the greenery that has not already been covered by concrete. Others find them an answer to the housing problem and enjoy inexpensive living in the great outdoors.

They're not the "Ma and Pa" trailer courts of 20 years ago. They're smartened-up communities that are part of a multi-billion-dollar industry. And millions of Americans live in mobile home parks; few are fortunate enough to live in parks as elegant as this one in Florida. But the people who own the parks and the people who build the mobile homes can't find land enough or mobile homes enough to satisfy the growing demand. But a growing number of buyers are growing angrier and angrier with both the sales methods and the building practices in the industry.

Every 30 minutes, 25 a day in this plant alone, almost 500,000 a year, they stream off the assembly line. But unlike the home-building business, mobile homes are subject to almost no building codes. If you wanted to put up a simple partition in a standard house, you'd be subject to every local building code—fire, health, etc. If you build an entire house on wheels, the local building codes do not even apply. The most common coach sold today is 12 feet wide and 60 feet long. You can buy them double width or even triple width, and so long as they put wheels on them, they can be built of cardboard and paste. They slip into a gaping loophole in federal, state and even local laws in many places. Most states classify them as vehicles, thus they get around the building codes. And because they don't have engines, they get around the federal automotive standards. Most of them can only be moved by tractor or heavy-duty truck. Few ordinary cars can pull the big ones. Yet once they're put on the mobile home park, they are rarely moved from the site.

Half of the one-family houses built in the United States today are mobile homes. Ninety-five percent of the houses sold for under $15,000 are mobile homes. Attractive when new, they can fall apart long before they've been paid for. Consumer fraud offices throughout the country have been flooded with complaint after complaint from mobile home buyers. Most of them are about the cheap and medium-priced coaches.

Typical of the complaints is this coach in Phoenix, Arizona, after only a few months' occupancy. Ceilings that can be pushed up from the walls. Bathroom fixtures rusting away and sinks coming loose from the wall. Kitchen cabinets without sides and without bottom shelves. Sliding doors that do not slide, on cheap tracks that come off the runners in a few weeks. Built-in drawers that have to be forced open and closed. Heating vents that are not even fastened to the floor and sometimes lead nowhere. The cheapest sort of window insulation. Walls so thin you can push them in with one hand. And the list goes on and on and on. The ride from the factory to the dealer and the second trip, from the dealer to the mobile home site, can turn a badly-finished home into a shambles.

DON WALLACE. I've seen coaches come in where that the cabinets were off on the floor and the paneling might be off laying down. I've seen them where the ceilings have fallen down in them. A lot of them, when they come in like this, the doors won't open on them.

SAFER. Don Wallace used to sell mobile homes in Phoenix.

DON WALLACE. The furniture package on a coach, which would consist of, other than the appliances, a couch, a chair, two end tables, lamps, a table, an occasional chair and, say, two beds in a two-bedroom trailer: dealer's cost, about $165.

SAFER. In some parts of the country you can ride past acres of mobile home dealers. It is a business of high profits and tempting possibilities. The phenomenal growth of the mobile home industry has led to the kinds of practices that were common among horse traders and used car dealers in the past. This year, almost half a million mobile homes will be delivered to dealers, many of whom will use every trick in the book to make a sale. The favorite victims are the naive, the retired, the elderly widow.

DON WALLACE. Older people will become confused if you show them too many coaches. So you could show them one coach or two coaches or three, sign them up, get their payment, have them sign a blank contract and then deliver the coach to them—except one thing: the coach you deliver to them wouldn't be the one maybe they looked at.

Mrs. REGINA HUBER. I looked at one and decided that was it and that was the one I wanted. But I didn't get the one I looked at and the one I picked. They switched trailers on me. They gave me a more expensive one and, well, everything was wrong. The plan was all wrong.

SAFER. A victim of that practice was Mrs. Regina Huber. She told her troubles to an Arizona Consumer Complaint investigator, Dick Wolff.

WOLFF. Did you look at the papers you signed?

Mrs. HUBER. I didn't see any papers. They were all blank; everything I signed was blank. And they didn't give me a copy of the sale or any sort of copy.

WOLFF. Well, this shows that you have a balance of over $18,000. Payable 12 years, $125 a month. Is that correct?

Mrs. HUBER. Correct.

WOLFF. Think it's considerably more than you can afford.

Mrs. HUBER. Very much so.

WOLFF. What are your plans now?

Mrs. HUBER. I'm hoping Legal Aid will do something for me, because I can't afford to live here.

WOLFF. You understand that you may lose the home?

Mrs. HUBER. Very much.

SAFER. Most mobile home dealers do not live in mobile homes. This is the house of one of Kansas's leading dealers, O. R. Bennett, who switched from selling pots and pans door-to-door to mobile homes.

What does the term "bait and switch" mean?

BENNETT. A bait and switch, well, bait and switch, as I understand it, is to advertise a house, a real cheap house, to get people out to your place of business, and then switch them up to a higher-priced house, show them something real plush and get them to buy that good house rather than that cheap one you advertised. Most everybody, naturally, buys some kind of an old dog and I've been guilty of that, too: buying a cheap house and advertising it—advertising the price—and get people out and show them that house and be real frank with them and tell them it isn't a very good house, then show them one that is a good house and let them use their own judgment.

SAFER. How far can you go as a dealer in satisfying people who come in with complaint after complaint?

BENNETT. Well, you're going to find this, that some people are going to complain if it was gold-plated. Now, that's a very minority. And of course, what you've got to do is try to pacify the—you can't satisfy everybody. The good Lord can't even do that.

SAFER. The conspiracies of man can be demoralizing. The hazards of nature can be devastating. Mobile homes are peculiarly susceptible to high wind. When wind swept through this mobile home park in Colorado, many of the coaches were hurled through the air. Most states do not have requirements to tie down the mobile homes at the site. These coaches actually were tied down with cables said to be able to withstand winds up to 130 miles an hour. At 90 miles an hour, the cable snapped and the coaches were torn apart. In Arizona, strong winds swept through this mobile home park with devastating results. And at Ft. Rucker, Alabama, in January, a tornado swept through two mobile home parks: five people killed and 80 injured. The coaches were lifted into the air and smashed to the ground. The worst damage to nearby houses: a few roofs lifted but no personal injury.

And wind isn't the only hazard. If there is a fire, the results can be deadly. Syracuse, New York, this winter: five people dead within minutes of this mobile home catching fire. Indianapolis: in the explosion and fire in this one, a two-year-old baby died. A man living alone in Phoenix, Arizona, died in this mobile

home. Producer Jim Jackson asked the Phoenix fire inspector to conduct an informal post-mortem.

FIRE INSPECTOR. The trailer was occupied by a single elderly man. And from our investigation it appeared that he was smoking in bed, or at least the point of origin was in the bedroom, which is to our rear back here. And our people arrived on the scene and found the man—he obviously was trying to escape—and they found him in the closet, right here. Either from being overcome by the smoke or in his confused state, he clawed the walls and confused the closet door for the door—the exit door.

JACKSON. Are those claw marks on the wall over there?

INSPECTOR. Yes, yes, they are. Those were made by the victim.

JACKSON. Is there a higher mortality rate in mobile home fires than in standard homes?

INSPECTOR. Yes, there sure is. From our records here in Phoenix, in 1971 we had about eight times the mortality factor in mobile homes as our ordinary dwellings. A mobile home is virtually one fire area, whereas comparing it with a dwelling, say a bedroom in a dwelling, if the door should be closed, then that fire area is limited to the bedroom. The persons in the far end of the trailer would have been just as susceptible to being overcome by the smoke and heat as the victim was.

Complete destruction here because they've taken a plywood that when manufactured has a high rate of flame spread and then they take and they coat it with highly combustible materials, your lacquers, your spar varnishes. As indicated in this particular room here, you have complete destruction of the plywood, yet in very close proximity you have a cotton, loosely-knit drape that is only heat- and smoke-damaged and has not been consumed by fire as the plywood has. All mobile homes, because they are compact, are using smaller windows. And with this type, it would be virtually impossible to use windows as a means of escape.

SAFER. In spite of all this, there are more than 15,000 mobile home parks in the United States and their numbers grow every year.

In Florida, where sites are at a premium, the owners of mobile home parks can dictate the most stringent terms. We talked to an attorney for a mobile home owners' association in Florida, Alvin Enton.

What's life like in these mobile home parks?

ENTON. It's not easy. These mobile home parks in south Florida don't offer leases and all the people that live in these mobile home parks are month-to-month tenants, which means they can be evicted at the landlord's whim for no reason at all on 15 days' notice. So life in these mobile home parks is one of constant fear.

SAFER. You mean he can just say "Out!"

ENTON. He can just say "Out!"

SAFER. Is this a good business, owning a mobile home park?

ENTON. It's a real good business. You take some of the newer parks, where right now, in order to get a space, you have to buy the mobile home from them. Therefore, they immediately raise the prices of the mobile home because they've got an exclusive dealership. There's money to be made there. Then they put it on the land, which they rent from anywhere from sixty-five to ninety-five dollars a month. Then after they take it and put in on the land, they'll charge you in some parks as much as eight dollars a month for each child that you have. They'll charge you five dollars a month for a washer, five dollars a month for a dryer, then they'll charge you five dollars a month for a pet. And once they're done adding up all thees extra charges, plus the money you're paying on the mobile home and finance charges, they're making off like a bandit.

SAFER. But the basic problem, the very first bit of banditry—or carelessness—is often in the construction of the mobile home itself. The industry has put out a code describing minimum standards. But manufacturers are not bound by the standards and, as in most self-policing industries, there is the suspicion that self-policing has become self-protection.

California and some 25 other states have adopted the manufacturers' code. It exists on their statutes, but it is rarely enforced. But even if it is, the manufacturer can still stay in business. For example, Arizona, which has no code, has become a dumping ground for rejected coaches from California, which has adopted the code. Another state with free-wheeling and fly-by-night manufacturers and dealers is Kansas. An Assistant Attorney General for the State of Kansas is trying to clean up his state. His name is Lance Burr.

Are there no minimum standards for building these things?

BURR. Well, there's no federal or state or local regulations. The industry has proposed some standards of their own. But as far as I know, one does not have to meet these standards.

SAFER. What recourse does an unhappy customer have? What can he do?

BURR. Well, right now, I don't think he has very much—hardly any recourse, to be frank about it. The warranties are ineffectual; they're—some of them are only 90 days. Most of the things that go wrong usually occur right after they get the trailer or within a short period of time. The unit is then out of warranty. We had one company that said that if you want your warranty honored, you have to bring the trailer to us, which—it was about seven or eight hundred miles from where the person purchased the trailer. And so, right now, there's just not much a consumer can do.

SAFER. Shoddy construction, fire traps, unscrupulous dealers. There is still more to tell. In most states, once a mobile home is sold on credit, the dealer, who is also the finance company, can take the contract and sell it at a discount to another finance company or to a bank. The effect of this is to release the dealer from all of his contractual obligations—like making good, damage caused by shoddy workmanship—but still binding the customer to his financial obligation.

BURR. There's a doctrine in Kansas, as there is throughout the United States, called the holder in due course doctrine. The bank simply says: You've got to pay us because we're a holder in due course and we purchased that paper without any knowledge that there was anything wrong, and so don't talk to us about any contract defenses, because you have to pay us. And that's the way the law is in Kansas, as it is in about 30 other states in the Union. There's about 20 states that have been progressive enough to abolish it. We're in a big fight right now attempting to get this doctrine abolished as it applies to all consumer goods and services. But it's particularly bad in the mobile home—with the mobile home problem, because there's so much money involved.

SAFER. So the only two times that a mobile home is mobile is the day it's delivered and the day it's repossessed.

BURR. I guess that could be said in some cases.

SAFER. So far, we've heard from just about everyone but the people who make the mobile homes. Well, we went to the Mobile Homes Manufacturers Association and the first thing they told us is that there is a code—this book of rules, which they themselves sponsored.

It must be pointed out that not all coach builders belong to the Association. But most of the bigger companies do. The manufacturers' association say that if all states adopted their code, their—and I quote—"bad image" would be improved. I asked the President of the manufacturers' association, John Martin, how effectively the code is policed where it does exist.

MARTIN. Well, it's been something that we've had to police ourselves and this is one of the problem areas, that people say, "Well, it's an industry-enforced code." But we have done it as a requirement of membership, we have terminated companies who have not complied with it, and our Association has taken that standard into various states to get it adopted to the state law—not to be enforced by us, but by state inspectors. The first state to do it was California, and they are probably the strongest as far as enforcement. And I think California has something like 32 men involved in this field.

SAFER. As somebody told me, that they're dumping all the ones that get red-tagged in California in Arizona.

MARTIN. Well, I think this is where a manufacturer, whether he does it intentionally or unintentionally, and he gets a unit that's bad, he might do that. That's why we feel that a state law requiring state enforcement is necessary in every state.

SAFER. What about attempts to cut corners? They seem to put them up awfully quickly.

MARTIN. They build a lot of them in a hurry, that's right. I think the shoddy workmanship that you might find in some of the less-expensive units or those where there's no regulation could be a problem. But I don't think that the manufacturer intentionally cuts corners in between visits by inspectors. I don't think he says, when an inspector walks out the door, "Okay, boys, knock off every other stud." That's not the case. The manufacturer gets in a production line basis and

his units are going down the line and the men on the job have the same responsibility on every unit to see that it's done right.

SAFER. Is the mobile home business a good business?

MARTIN. It has been a very good business and quite a growth business. 1971 was our banner years, with almost a half a million units. And people like mobile homes.

SAFER. Many people do like living in mobile homes and not the least reason is that it is the least-expensive kind of home that you can really call your own. It should also be pointed out that most of the mobile homes produced in this country are sound; at the very least, they conform to the manufacturer's own specifications. But a significant number are badly enough made to worry the entire industry about its image. All of the industry has been thriving in the current unregulated climate. And until all the states or the Federal government decide to do something about it, the sharp practices and the shoddy construction we've just seen will continue.

Mr. MARTIN. I might point out that that request was denied by Mr. Ray, one of the staff members of the FCC and Mr. Cliff Wilmath has taken the next step, to file with the Commission itself.

The CHAIRMAN. With the full Commission?

Mr. MARTIN. Yes, sir.

The CHAIRMAN. I note he said the way the request was filed that it was being acted upon by him, but that he could ask for the full Commission.

Mr. MARTIN. And he has done that, sir.

The CHAIRMAN. Thank you very much.

Senator Taft?

Senator TAFT. Thank you, Mr. Chairman.

I might just say that I have just had a chance to review your statement briefly here. I will review in far greater detail the comments on the proposed amendment to S. 1348.

I gather that you feel that the warranty approach is a perfectly sound approach within the limitations of the suggested changes that you propose here?

Mr. MARTIN. Yes, sir, Senator, in keeping with that approach and your warranty, which we do approve of with a couple of suggested changes we have recommended. We also have model legislation that we are hoping to get introduced in various States throughout the country, so that at least something is going in that direction at the same time. Because we feel the warranty is an important part of protecting the consumer in this issue.

Senator TAFT. With the warranty running to the consumer?

Mr. MARTIN. Yes, sir.

Senator TAFT. Even though there isn't legal privity in some instances?

Mr. MARTIN. So that the manufacturer and the dealer fulfill their obligation to be sure the mobile home is satisfactory to the consumer through the life of the warranty.

Senator TAFT. I have a number of questions from Senator Brock, the sponsor of this bill. I will ask them at this point, if I may, Mr. Chairman.

The CHAIRMAN. Yes, but before we get away from this last question you asked, may I ask this: You said that you have model legislation.

Is it your hope that it can become uniform legislation in all of the States?

Mr. MARTIN. Senator, this is a project that we started prior to Senator Taft's amendment being introduced and we intend to proceed

with it regardless of what happens to the legislation or the amendment as far as the Senate is concerned.

We feel that this approach has to be taken in order that there be uniformity in warranties throughout the country.

We have seen abuses, so far as after-the-sale service, and whether a manufacturer or dealer causes it or not, we think these things should be corrected.

The industry had already started to go with the model legislation to get the program underway.

The CHAIRMAN. I know, but the point is though, is it your hope that it will be adopted State by State and not as Federal legislation?

Mr. MARTIN. I must admit we prefer the State-by-State approach initially.

The CHAIRMAN. I wonder if you would supply us with a copy of that model legislation?

Mr. MARTIN. We would be most happy to, sir.

The CHAIRMAN. For the record.

All right, thank you.

Senator Taft?

Senator TAFT. Thank you, Mr. Chairman.

Some of these questions you may be able to answer quickly and others, if you care to, you may submit further information later on.

According to statistics published by the Office of State Fire Marshal in Oregon, mobile homes are more unsafe than site-built homes.

Do you have any comment regarding these statistics?

Mr. MARTIN. Yes, Senator.

One of the things they pointed out in their statistics, and it has been used by two Members of Congress up to this point, as well as by other outside organizations, the thing they fail to mention is there is less likelihood of a fire in a mobile home than any other type of housing. That is in the same report, but not one that is picked up by our critics.

There are other points in there. They talk about a fire death ratio, which is several points off in their report, and the Oregon people are going over the reports now to change it.

Senator TAFT. What effect would a completely new construction code have on the mobile home industry?

Mr. MARTIN. If we are talking about a new construction code, we are using a 119.1 as a national building code for mobile homes, and we think that the way it was developed by these other agencies is the proper way to develop a national code.

If the thought is to come up with something completely different than A119, or at least using A119 as a guideline, then I think it is contrary to the best interests of the consumer and would certainly damage the industry.

Senator TAFT. Does the ANSI code provide sufficient protection to mobile-home owners from injury or loss of life?

Mr. MARTIN. Senator, I think it does. As Mr. Bono of U.L. pointed out, there are changes being made continually. Every year there are revisions being made to A119.

To give you some examples quickly, we have such things as changing safety glass requirements in mobile homes, in larger windows, flame spread requirements on the paneling, ground fault equipment, truss tests, increased insulation, anchor tie-downs, the last one under consideration now is smoke-detection devices.

These are things that the industry, working with the ANSI committee, has already put into effect.

Senator TAFT. The ANSI consensus standards approach has been criticized in the past as being unresponsive. I take it you feel recent changes have been made which improve the safety standards?

Mr. MARTIN. We feel it is very responsive, and there are several Federal agencies and other outside agencies that come to ANSI with standards that have been incorporated into A119 and the requirements for the industry.

Senator TAFT. In the testimony, you suggest that a part of section 112(d) be omitted. This section requires that technical data be given to the first purchaser of any mobile home.

Why do you feel they do not need to have this type of material?

Mr. MARTIN. I would have to state, Senator, that it would probably be like providing a copy of blueprints to every person that buys a home or any other commodity. I think that the people are interested in floor plans and the fact that it does comply with the State or Federal requirements. Prospective purchasers requesting a detailed set of plans of mobile homes, just by itself, would raise the cost not only to the manufacturer, but to the consumer ultimately.

Senator TAFT. I am not sure whether you mentioned it in your testimony, I am sorry I wasn't able to be here earlier, but what has been the experience in recent months particularly with regard to tornado damage on mobile homes?

Mr. MARTIN. The tie-down requirements on tornadoes, this study started some years back, and frankly it was because the industry started getting larger, and going to different parts of the country and becoming more of a factor in housing. It became more of a prominent problem, so the industry started the testing approaches to come up with anchoring tie-down requirements.

We have imposed that on our members, we have worked with the States to impose it by law in the State legislatures, and we also have legislation, model legislation, that we provide to a State and say here is the suggested way to require that mobile homes, all mobile homes in the State, be tied down.

And the industry supports the tie-down requirement.

Senator TAFT. Do you think the tie-down method is adequate to handle this problem? I don't know how strong the tie-downs specified are, but are you dealing with something that can be handled in this way?

Mr. MARTIN. There are several approaches to tie-downs. Some came underneath the unit to hold down the floor. Our standard specifies that there must be tie-down straps over the top of the mobile home, spaced at a periodic spacing according to the length of the mobile home. And those tie-down straps then are fastened underneath the units in an appropriate manner.

There are several engineering tests that have been prepared to back up these different approaches of tie-down. There are probably a half dozen tie-down approaches that we have.

We would prefer the over-the-top strapping.

Senator TAFT. Thank you, very much.

Thank you, Mr. Chairman.

[Complete statement of Mr. Martin and additional information follows:]

Remarks on S. 1348, S. 898, S. 899

For

Senate Subcommittee on Housing
and Urban Affairs

July 24, 1973

By

John M. Martin
Mobile Homes Manufacturers Association
Trailer Coach Association
And
Southeastern Manufactured Housing Institute

Mr. Chairman, Members of the Committee:

My name is John M. Martin and I am President of the Mobile Homes Manufacturers Association, P. O. Box 201, 14650 Lee Road, Chantilly, Virginia. I am also appearing on behalf of the Trailer Coach Association, 3855 East LaPalma Avenue, Anaheim, California, and the Southeastern Manufactured Housing Institute, 348 E. Paces Ferry Road, Atlanta, Georgia. Together, our Members produce approximately 75 percent of all the mobile homes manufactured in the United States each year. In addition, we represent approximately 3,000 dealers from coast to coast.

Attached to the copies of my remarks is a copy of "Flash Facts on Mobile Homes," a pamphlet which gives a composite look at the mobile home industry, its growth, its consumers and its prominence in the marketplace for homes selling for under $25,000. This booklet also contains a great deal of historical data on the industry.

We are here today to lend our support to the principles embodied in S. 1348. While our industry is not totally convinced of the need for federal control of mobile home construction, we find ourselves in a position which the majority of American industries find themselves today; that is, faced with an ever-increasing burden of federal involvement. While several mobile home "safety" bills have been introduced in the last year and a half, we feel very strongly that none of the proponents of this legislation has made a particularly compelling case establishing the need for federal mobile home safety standards. Nevertheless, if federal regulation is to be mandated by the Congress, we feel certain minimal requisites should be included.

One of the strongest points in this legislation is that it would achieve reciprocity among states for our homes and would also create uniformity of inspections to a degree far beyond that which we have been able to develop through individual state by state legislation. At the current time, 36 states have adopted the American National Standards Institute Mobile Home Standard A 119.1. We have actively sought enforcement legislation in each state and have consistently offered the technical experts in our Standards Division as a resource to the states to assist them in training and developing inspection capabilities. This has apparently not been sufficient for Congress, as a number of mobile home safety bills have been introduced in the last year and a half.

The following is a Section by Section analysis of amendments which the industry feels would strengthen S. 1348 and ensure a workable law from which the consumer would benefit and the industry

could support. Also attached is a copy of S. 1348 marked up with our recommendations.

Section 102 (6)

The definition presently included in S. 1348 would restrict the law to "single wide" mobile homes only. We feel that the following definition would adequately cover all mobile home product-types and, therefore, be the best definition for the purposes of this Act:

> "Mobile home" means a structure, transportable in one or more sections, which exceeds eight body feet in width, equipped with running gear, and designed to be used as a dwelling when connected to the required utilities;

The above definition separates the mobile home industry from the recreational vehicle industry and, yet, it clearly defines all mobile homes.

Section 103 (a)

The American National Standards Institute has spent 13 years developing what we feel is a good performance standard for mobile home construction. We would like to recommend that in Section 103 (a), line 8, the following insertion be made after the word "standard"; "shall be reasonably consistent with nationally recognized standards as promulgated by the American National Standards Institute,". This, we feel, would strengthen the legislation by giving the Secretary of HUD an example in performance standards upon which he could base his national mobile home safety standards. A great deal of research and work has gone into this standard by ANSI, the National Fire Protection Association, the Department of Housing and Urban Development,

the International Association of Electrical Inspectors, Underwriters' Laboratories, Incorporated, the National Bureau of Standards, the American Gas Association, numerous state officials, and many other groups. In addition, it has been adopted by some 36 states and is awaiting enactment into law in several others. As you may already know, it is also the standard required by both the FHA and the VA as a condition of participation in their respective mobile home programs.

Section 103 (g)

The American National Standards Institute Mobile Home Standard A 119.1, has evolved to its present form over a period of 13 years. It was developed through the cooperation of a large number of professionals from all fields of building standards, government, and industry. It has taken a great deal of time and research to develop this comprehensive standard; and, therefore, we are opposed to setting a deadline for the Secretary of the Department of Housing and Urban Development for a complete revised mobile home safety standard one year after the enactment of this Act. We would suggest that HUD take the mobile home standard A 119.1 and continue to accept modifications to this standard as the industry has in cooperation with numerous technical experts over the past 13 years. To request that the Secretary have new and revised mobile home safety standards after one year is to suggest the impossible, and we cannot see any advantage to either the consumer or the mobile home industry for this kind of deadline to be mandated by law.

Section 104 (a)

The National Fire Protection Association, we feel, should be

represented on the Mobile Home Safety Advisory Council, and mobile home industry component suppliers should be included as well. Both groups have participated extensively in past standards-making activities and possess considerable expertise which could be contributed to the Mobile Home Safety Advisory Council. The National Fire Protection Association is a cosponsor of the ANSI A 119.1 standard and is the national clearing house for fire safety information and fire safety standards. They reference the mobile home standard as NFPA 501.B. The suppliers of mobile home components are knowledgeable in materials technology and have been instrumental in the development of the mobile home as we know it today. Their inclusion on the Safety Advisory Council will ensure that the standards are kept current with advances in the building materials and components industry.

Section 108 (b)

Section 108 (b) has a totally new concept embodied in it with which the mobile home industry disagrees. Due to the fact that no one has ever attempted to create standards for used homes, for used mobile homes, or for used motor vehicles, we feel that such legislation is entirely out of perspective with the building industry. There appears to be no legislative justification whatsoever for this kind of amendment. The only type of legislation ever passed with this kind of amendment embodied in it was the National Motor Vehicle and Traffic Safety Act of 1966 which included a provision for standards for used automobiles. Seven years after the enactment of that bill, no attempt has been made to actually create these used car standards. This has not been done because a system of standards

and enforcement would be difficult, if not impossible, to implement. The same dynamics which affect used car standards come to bear on used mobile homes as well. The owner of a used home would be faced with a depressed price for his noncomplying home in the event he chooses to trade it in on a new home. His alternative would be to bring the home into compliance at his own expense and then privately offer it for sale. The used home market would be adversely affected to the extent that resale prices would almost surely bring them into competition with new mobile homes. The average retail price of the nearly 600,000 mobile homes sold in 1972 was approximately $7,000. This price included all major household appliances, carpeting, and draperies. A noncomplying used home brought into compliance through manual construction practices at today's wage and material prices would cost as much as many of the less expensive new homes being offered for sale today. It should be readily apparent that there would be little market for such a renovated home; and, moreover, dealers would be extremely reluctant to accept them as trade-ins, renovate them, and offer them for resale. Finally, we know of no prevailing conditions in the private housing sector which require a home offered for sale to be brought into compliance with existing codes before any such sale is consummated. Mobile homes, like site built homes, are subject to alterations which are occasioned by conditions of use by the occupant. We feel it would be an unjustifiable and devastating economic burden to require that used mobile homes which are offered for sale meet any such test.

Section 111 (a) (1)

The mobile home industry feels that the repurchase agreement embodied in Section 111 (a) (1) is an unnecessary and particularly

onerous addition to S. 1348. The vast majority of mobile home manufacturers warrant their products and stand behind their warranties. It is for that reason that we find no particular fault with the provision requiring the manufacturer to furnish the distributor or dealer any required component part and, further, to reimburse them for any reasonable cost of installation. Almost without exception, this method of correcting compliance deviations would be superior to a scheme whereby the home would have to be returned to the factory. Mobile homes are permanent dwellings. They are designed, quite frankly, to be moved from the factory to the site. They may be moved once sited, but this relocatability capability is not a factor in the purchase decision of the majority of mobile home owners. They are seeking dependable housing which they expect to perform as well as any other type of shelter but at a price which they can afford. Again, we must emphasize the fact that no producer of any other type of shelter is faced with a repurchase agreement such as that embodied in S. 1348. The simple requirement that manufacturers bring any noncomplying home into compliance obviates the need for any provision as excessive as the repurchase requirements. This bill provides extreme penalties for flagrant violators of the Act under Section 109.

In the past, manufacturers have voluntarily replaced homes when it became apparent that there was no other solution to the consumer's problem. Repairs have been made on homes which have been out of warranty for three to five years. All reliable mobile home manufacturers realize that the best ally they have in the marketplace is a reputation for building a quality product and

standing behind it. If the Committee insists on retaining the repurchase provision in Section 111, we would respectfully urge that they either include language in the Act or recommend administrative procedures to the Secretary which will protect reputable manufacturers from having to summarily repurchase noncomplying homes.

Section 112 (d)

Under this Section, the Secretary can require the mobile home manufacturer to provide performance and technical data to each prospective purchaser of mobile homes. The mobile home manufacturer can easily understand why it would be necessary to provide technical data and performance information to the Secretary; however, we feel that it could be an unnecessary burden to require that technical data be furnished to the average individual purchaser of a mobile home. Most mobile home manufacturers today furnish pertinent booklets and materials for the consumer's educational benefit; and we do not feel that the average mobile home purchaser would be capable of utilizing technical plans and data as appears to be required under this section. Providing prospective mobile home purchasers with technical data would be the equivalent of having home builders provide prospective purchasers with blueprints. The typical home buyer is interested in floor plans, room layouts, and the like. We respectfully suggest that he is not interested in technical data regarding the heating, electrical, plumbing, or mechanical aspects of his prospective home.

Section 113

This Section, which requires the manufacturer to notify purchasers of defects discovered after the home is acquired, should be primarily

concerned with deviations affecting life safety. The notification of defects provision comes directly from the National Motor Vehicle and Traffic Safety Act of 1966. While it may be appropriate for motor vehicles which are mass-produced through automated techniques, we feel strongly that it has no applicability in the housing field. Defective component parts of mobile homes are specifically covered under the Consumer Product Safety Act and, in fact, a gas range manufacturer has already effected a defect notification campaign to mobile home owners and dealers under the provisions of that Act. Moreover, according to an opinion issued by the Federal Highway Administrator on March 20, 1970, mobile homes are, in fact, subject to the provisions of Section 113 of the Traffic and Safety Act. For purposes of regulation, mobile homes are defined as "mobile structure trailers" by the National Traffic and Safety Administration To further require defect notification under S. 1348 would be to perpetuate needless redundancy. On the other hand, should the Committee wish to bring this function completely under the purview of the National Mobile Home Safety Standards Act of 1973, we respectfully urge that they clarify the jurisdictional picture by amending Section 113 of PL 89-563 by specifically excluding mobile homes from that Section.

In review, there are three provisions embodied in this legislation to which we would like to give our full support.

First of all, S. 1348 would develop one national standard under which all mobile homes will be built. Much has been said in the past in favor of a single standard in the home building industry, but most

efforts to develop such standards have been futile. The National Mobile Home Safety Standards Act is a step in the right direction to ensure uniform performance standards for a large segment of the home building industry.

The mobile home industry has been able to maintain the low cost of its home because of two major factors; the first is the ability to produce the homes year round because they are built indoors in a factory. The second, and most important, is the ability to build the home to a single, universal standard. Through a series of state laws which have preempted local jurisdiction, the mobile home industry has been able to avoid costly construction changes necessitated by compliance with the code requirements of a multiplicity of local political jurisdictions. If the various states are permitted to deviate from the federal construction standards, one of the major benefits of S. 1348 will be forfeited. Permitting states to deviate from or exceed the federal standard would not be consistant with the current state of the art in the mobile home industry and would introduce chaos into the standardized production sequence. A viable performance-type standard, such as the ANSI A 119.1, will provide every state with the latitude it needs to meet its particular construction requirements.

A second concept which we fully support is that of reciprocity between states. It has often been pointed out that economies in the housing industry can only be accomplished when economic boundries become the only limiting factor to a manufacturer's building capabilities. By requiring a single preemptive federal standard, this legislation can provide the various states with knowledge as to the type of homes being built by their neighboring states. A single standard would, in effect, achieve reciprocity.

The third important factor which the industry fully supports is that of state enforcement. Some states already have strong enforcement systems. The passage of this Act will enable the balance of the states to create and implement effective enforcement programs. Good examples of strong state inspection systems are the States of North Carolina and California.

North Carolina has chosen to contract their enforcement program to a designated "third party". Under this system, qualified, independent laboratories submit their credentials to the State for approval. Underwriters' Laboratories, Incorporated; United States Testing Company; and Pittsburg Testing Laboratories, Incorporated are typical of the type of laboratory which is approved for enforcement responsibilities by the State of North Carolina.

California, on the other hand, has an agency within the State governing the inspections of mobile homes under production and enforcing the construction standards. Both programs do an excellent job of assuring that the consumer is provided with a home which is built in compliance with existing state standards. States such as Minnesota and Indiana, have dual programs which provide for enforcement by either state employees or independent third parties.

In summarizing my comments regarding S. 1348, let me strongly re-emphasize the point that any federal program which does not include the ingredients of reciprocity, state enforcement, and a single preemptive federal construction standard, cannot be effective in providing the best possible home at the lowest possible price.

After the introduction of S. 1348, Senator Taft forwarded an amendment which would require manufacturers to warrant their home for a period of one year from the date of purchase. While the amendment is commendable in its intent, we must point out that its method of achieving consumer satisfaction does not take cognizance of the dynamics involved in effecting mobile home repairs. The dealer is an integral part of the mobile home service and repair system. He is the first person to whom the mobile home owner turns in seeking assistance for repairs to his home. Mr. Taft's proposed warranty makes no provision for including the dealer in the achievement of consumer redress. We would like to suggest the changes in his amendment beginning with Section 114 (2).

Strike everything from the first word, "agrees..." through the end of the sentence which concludes, "...section 113." We recommend that the following be inserted in its place: "warrants that the mobile home was manufactured in compliance with the standards specified under Section 103 of the National Mobile Home Safety Standards Act of 1973 and was delivered to the dealer in such condition. Dealers shall warrant that the mobile home, when sold to the buyer, is in compliance with the standards specified under Section 103 of the National Mobile Home Safety Standards Act of 1973. Neither manufacturer nor dealer shall be liable for any defect in said mobile home which is the result of improper set up, move, materials furnished, or work done by persons other than manufacturer or dealer.

(c) Manufacturer and dealer warrant that they, or one of them, shall take appropriate corrective action at the site of the mobile home in instances of noncompliance with the aforementioned standards

for which they are respectively responsible, as provided in paragraph (b) (2) hereof, which becomes evident within one year from the date of the delivery of the mobile home to the buyer provided that the buyer gives written notice of such defects through the manufacturer and dealer at their business addresses not later than one year and 10 days after date of delivery to the original buyer."

We further recommend that the balance of Section 114 (2) (b) beginning with the sentence, "In the event..." through the end of that Section be lettered as Section (d).

As we have stated earlier, mobile home manufacturers make a practice of providing warranties and standing behind them. However, any proposed warranty, in order to be effective, must be equitable to all parties involved. Giving the manufacturer the responsibility for providing parts and service for the repair of any standards deviation is neither justifiable nor equitable. Mobile homes are subject to activity not generated by the manufacturer once they have left the factory and been placed in the hands of a dealer. Transportation companies, dealers, park operators and, in some extreme cases, even owners cause them to be moved. This is done with varying degrees of expertness, or inexpertness, if you will. Similarly, mobile homes are installed at the site by dealers, park operators, and again, in some extreme cases, owners. The installation and set up of a mobile home is critical to the performance of that home as a satisfactory dwelling. If it is not installed, leveled, or blocked correctly, it may malperform in a variety of ways. The manufacturer, who is remote from the installation [illegible] has no way of ensuring the integrity of the installation and set up procedure.

For that reason, we strongly urge that the Committee adopt the language suggested above in favor of that forwarded in the Taft amendment.

We would like to make a few additional comments regarding S. 898 and S. 899, which are also being considered here today. Senators Hollings and Cranston have sponsored S. 898, a timely and much-needed adjunct to the FHA mobile home mortgage insurance program. This bill would change the FHA program in three ways.

First, it allows a provision for the mobile home lot and improvements to the lot to be added to the FHA insurance program. This is a necessary addition since nearly 50 percent of all mobile homes are sited outside of mobile home parks. This provision would allow the individual to purchase a developed lot or purchase land and develop his own lot with maximum FHA insurance up to $7,500 or up to $5,000 for the purchase of an unimproved lot.

The maximum length of financing under the existing program is 12 years and 32 days for a "single-wide" with an improved lot and 15 years and 32 days for two or more modules on an improved lot. The mobile home industry strongly recommends that the maximum maturity be extended to 20 years and 32 days for the mobile home and improved lot instead of 12 years and 32 days for the single-wide and 15 years and 32 days for the double-wide as recommended in S. 898. In the past, the mobile home has been considered much like the automobile in that it has a decrease in value as it increases in age. However, it has been found that when a mobile home is placed on a permanently developed site, the over-all package of both the mobile home, land, and improvements increases in value in a similar

fashion to that of the site built home. All mobile homes insured under FHA must be built to the American National Standards Institute Standard A 119.1. This performance standard has been improved to the point where we feel strongly that a mobile home, with proper care, will have a life span far exceeding 20 years.

In a recent Federal Reserve Bank of Chicago Review of, Mobile Homes and the Housing Supply, the author states that, "Properly maintained and barring a catastrophe, a well-constructed mobile home can last indefinitely, like conventional housing."

A study published in April 1973 by the Research Triangle Planning Commission of Research Triangle Park, North Carolina, had this to say about mobile homes built to the ANSI A 119.1 code: "Use of this Code is likely to reduce safety hazards associated with mobile home living. The safe and useful life of units complying with the Code is estimated at 20-25 years." The study attributed this assessment of mobile home product life to Mr. Kern Church, Chief Engineer, North Carolina Department of Insurance; and Administrator of that State's mobile home enforcement program. In the Senate Housing bill of 1972, 20 years was the approved maximum loan-term for two or more modules. Logic dictates that this is equally applicable to the single wide mobile home built to the same standard.

A third important change embodied in S. 898 provides the Secretary of HUD with the authority to set maximum interest rates for FHA Title I mobile home insurance. The mobile home industry enthusiastically supports this recommendation. The Federal Reserve Board reports that the average interest rate on mobile homes for

the first six months in 1973 was approximately 12.5 percent. The FHA interest rate, due to a sheet summary originally developed for the home improvement portion of FHA Title I, allows an average interest rate of 8.5 percent on mobile homes. Unfortunately, due to the set rate on Title I, potential mobile home buyers have been unable to use the FHA insurance program to any great extent. If the Secretary of HUD were to set the interest rate somewhere between the current conventional rate and the present FHA rate, the FHA insurance would aid prospective home buyers by allowing them to obtain financing at a lower rate. To leave the program as it presently exists would frustrate the original intent of Congress to make mobile homes readily available to those Americans unable to afford other housing alternatives.

S. 899 would extend to the Farmers' Home Administration the same provisions afforded the FHA under S. 898. An increasing number of mobile homes are being sited in rural America. The purchase price of the home and the improvements to the home site are more often than not being financed at interest rates which average approximately 12.5 percent annually. An analysis of the FHA loan program has revealed that in only a very few instances has it been able to afford assistance in these rural home owners. They are paying the penalty for wanting to remain in a rural environment. Extension of the FHA program provisions to the Farmers' Home Administration would provide financing at a far more favorable rate than is available through conventional sources. The historical development of the mobile home industry has shown convincingly that the majority of mobile homes sold are being sited in rural and

semi-rural areas. Our projections for growth indicate that this trend is likely to continue in the years ahead. This Committee can aid the potential buyer of the future by expanding the Farmers' Home Program to include mobile homes. If this is not done, thousands of mobile home owners will be forced to suffer the penalty of paying high interest rates which result as a lack of a viable federally insured mortgage insurance program.

Mr. Chairman, this concludes my remarks. We would be happy to answer questions that you or other Members of the Committee might have at this time.

WHAT IS MHMA?

The Mobile Homes Manufacturers Association is a nonprofit trade association whose membership is comprised of manufacturers and suppliers in the factory-built housing industry. Through its Standards requirements and its planned programs in federal and state legislation, land development, public relations, and consumer education, it promotes industry growth and welfare.

MORE INFORMATION

• **Mobile Home Technical, Teaching, and Consumer Books:** Lists of technical books for mobile home community developers, teaching aids for secondary school and adult classes, guides to the care and selection of mobile homes are available from MHMA along with a list of industry trade publications and newspapers published for mobile home owners. To obtain your free copies send a self-addressed, 8¢ stamped, long envelope to Publications Division, MHMA, Dept. FF, Box 32, Chantilly, Va. 22021.

• **Mobile Home Associations:** There are approximately 60 national, state and regional mobile home associations throughout the USA and Canada. Their membership includes dealers, manufacturers, suppliers, and park operators. To obtain a list of these associations, send a self-addressed, 16¢ stamped, long envelope to Publications Division, MHMA, Dept. A, Box 32, Chantilly, Va. 22021.

Mobile Homes Manufacturers Association

P.O. Box 201
14650 Lee Road
Chantilly, Virginia 22021
703 968-6970

Regional Offices:
Suite C-1
725 South Central Expressway
Richardson, Texas 75080
214 231-7200

Suite 107
6650 North Northwest Highway
Chicago, Illinois 60631
312 792-3800

flash facts

Pocket Reference to the

Mobile Home Industry

MOBILE HOMES MANUFACTURERS ASSOCIATION

June, 1973

1086

DEFINITIONS

A **Mobile Home** is a transportable structure, which exceeds either 8 body feet in width or 32 body feet in length, built on a chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities.

A **Double Wide Mobile Home** is a mobile home consisting of two sections combined horizontally at the site while still retaining their individual chassis for possible future movement.

An **Expandable Mobile Home** is a mobile home with one or more room sections that fold, collapse or telescope into the principal unit when being transported and which can be expanded at the site to provide additional living area.

A **Modular Unit** is a factory fabricated transportable building unit designed to be used by itself or to be incorporated with similar units at a building site into a modular structure to be used for residential, commercial, educational or industrial purposes. A modular unit may be built to local codes.

A **Sectional Home** is a dwelling made of two or more modular units factory fabricated and transported to the home site where they are put on a foundation and joined to make a single house.

Mobile homes, double-wides, sectionals and modules are transported to their sites by trucks whose movements are controlled by state highway regulations, or they are shipped on railroad flat cars.

GENERAL FEATURES

Furnishings: New mobile homes are sold fully equipped; major appliances, furniture, draperies, lamps and carpeting are all included in the purchase price. Optional features are available such as air conditioning, automatic dishwashers, automatic garbage disposals. The home is centrally heated by gas, oil or electric furnace. Buyers have a choice of color and style in selecting furnishings.

Design: Today's mobile home has a spacious living room; dining room or dining area; kitchen; one or two bathrooms; one, two or more bedrooms; with custom designed cabinetry and closets.

Width	Average Length	% of Total Shipments 1971	1972
8′ and 10′	35′ to 60′	1.1%	0.4%
12′	60′ to 70′	69.6	64.7
14′	50′ to 70′	16.2	17.8
16′	50′ to 70′	0.1	0.1
Expandables	50′ to 70′	1.0	2.2
Double-wides	50′ to 70′	12.0	14.8
Triple-wides	50′ to 70′	—	—
		100.0%	100.0%

14 Wides: 36 states permit 14-wides to be transported on their highways. More states are expected to follow.

Prices: The average retail price of all mobile homes, including all widths, as shown below, is $6,950 or about $8.73 per square foot, *including* the furnishings and appliances. By comparison, the average site-built home costs about $15.13 (estimated) per square foot, *unfurnished,* exclusive of land.

Type of Home	Retail Price	Average Price
Single-Wides	$4,500 to $13,000	About $ 6,800
Expandables	$8,000 to $14,000	About $10,300
Double-Wides	$8,000 to $20,000	About $10,700
Average, all sizes		About $ 6,950

According to the Census Bureau, the median intended sales price of a 1972 site-built, single family home was $27,200 including land but excluding furniture and appliances.

MANUFACTURERS

There are approximately 334 firms producing mobile homes from 811 factory sites. More than 60% of the nation's mobile homes are produced by members of the Mobile Homes Manufacturers Association.

The average mobile home plant has 64,000 square feet.

MOBILE HOMES SHIPMENTS

Year	Manufacturers' Shipments to Dealers in U.S.	Retail Sales (Estimated)
1972	575,940	$4,002,783,000
1971	496,570	3,297,225,000
1970	401,190	2,451,271,000
1969	412,690	2,496,775,000
1968	317,950	1,907,700,000
1967	240,360	1,370,052,000
1966	217,300	1,238,610,000
1965	216,470	1,212,232,000
1964	191,320	1,071,392,000
1963	150,840	862,064,000
1962	118,000	661,000,000
1961	90,200	505,000,000
1960	103,700	518,000,000
1959	120,500	602,000,000
1958	102,000	510,000,000
1957	119,300	596,000,000
1956	124,330	622,000,000
1955	111,900	462,000,000
1954	76,000	325,000,000
1953	76,900	322,000,000
1952	83,000	320,000,000
1951	67,300	248,000,000
1950	63,100	216,000,000
1949	46,200	122,000,000
1948	85,500	204,000,000
1947	60,000	146,000,000

Prior to 1947, production varied from 1,300 in 1930 upward to 60,000 in 1947.
10-wide homes came into mass production in 1955.
12-wide homes came into mass production in 1962.
14-wide homes came into mass production in 1969.

SUPPLIERS

Suppliers to the mobile and modular home industries have discovered a market that utilizes over $1 billion in materials, components, and furnishings. This dollar volume is expected to increase to well over $2 billion by 1976.

The recognition of mobile and modular housing industries as big business has witnessed an influx of supplier companies into the industry over the past few years. There are more than 380 suppliers firms including land development, financial and insurance institutions that are members of MHMA. These firms recognize that through their memberships they have become a united force striving for a common goal, the consistent betterment of their products through innovation and technology, which will benefit both manufacturer and consumer.

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BUYER PROTECTION — STANDARDS

All manufacturer members of MHMA must build their mobile homes to conform to the requirements of American National Standards Institute's (ANSI) Standard A119.1 for Mobile Homes. The manufacturer must certify his compliance with these requirements by placing a blue and silver (or gold) Standards Seal near the front door of each home. Each home bears its own registration number which appears on the seal. ANSI Standard A119.1 sets forth the requirements for the construction, as well as the plumbing, heating and electrical systems of the home.

The electrical section of the A119.1 standard includes the National Electrical Code C-1. The National Fire Protection Association (NFPA) and the Trailer Coach Association (West Coast) are also co-sponsors of ANSI Standard A119.1.

ANSI Standard A119.1 and NFPA 501B are identical.

A gold Standards Seal identifies the Total-Electric mobile home. This seal was developed in cooperation with the Edison Electric Institute and the National Electrical Manufacturers Association.

There are currently 36 states where laws require compliance with American National Standard A119.1; several other states are expected to adopt similar laws in the near future.

MHMA Standards inspectors monitor the Standards compliance of all members by inspecting their plants on an unannounced basis.

The combined membership of Mobile Homes Manufacturers Association and the Trailer Coach Association, who must build to ANSI Standard A119.1 represents 66% of all mobile home production, and a total of 84% of all 1972 homes sold went into states where manufacturers must build to the Mobile Home Standard.

ANNUAL VOLUME

Retail sales of new mobile homes are more than 4 billion dollars yearly. Add to these sales the investment in parks and other services such as insurance companies and financial institutions, as well as the income from park rentals, and the impact of this part of the housing industry on the general economy becomes apparent.

MOBILE HOME FINANCING

After more than twenty years of development and refinement, mobile homes have come-of-age as authentic housing. Savings & Loan Associations as well as banks can lend on them. Mobile homes are also eligible for Federal Housing Authority (FHA) or Veterans Administration (VA) loan guarantees.

The standard method of dealer financing through a chattel mortgage loan, however, still predominates. The dealer arranges for finance sources for purchase through a conditional sales contract agreement or the Uniform Commercial Code Security Agreement. The loan agreement originates through the sales agent (the dealer). The installment contract is then sold to the financial institution. Mobile home financing like other types of credit financing, is subject to the "Truth-in-Lending" regulations and the customer must be told the annual rate of interest he is being charged.

Downpayments range from no downpayment under VA regulations to 20% to 30% under the chattel mortgage plan; payment time may range up to 15 years, depending on the type of home and financing.

FHA and the VA are also empowered to guarantee loans that cover the cost of site preparation.

In those areas of the nation where double-wide and sectional homes have become a significant factor, some institutions have extended terms and make loans on a conventional mortgage rate.

FHA will insure a loan of up to $15,000 maximum, on a double wide unit, for a term of up to 15 years and 32 days. The location for placement of the home must pass the requirements of property standards of the agency.

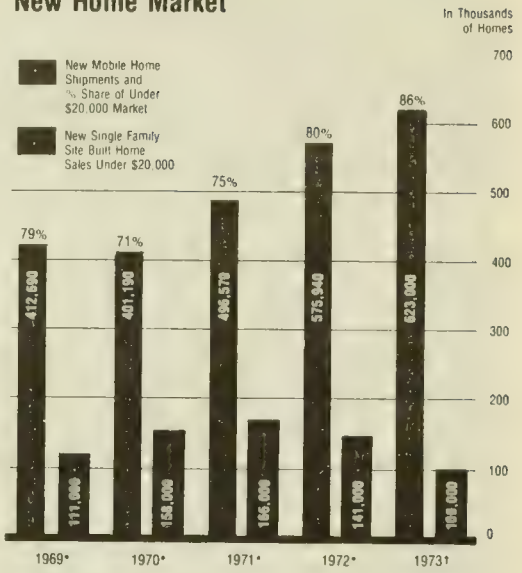
Under the VA program, the maximum loan rate for the home remains stable at $10,000, with a term of 12 years. In addition, the maximum is raised to $17,500 when a lot, and its improvements are included, and the term is then increased to 15 years. Certificate of Eligibility is required through submission of VA Form 26-1880.

In both the FHA and VA programs, the mobile home must conform to the American National Standards Institute (ANSI) Standard A119.1 for Mobile Homes.

DEALERS

There are approximately 10,500 dealership firms in the United States, through which the vast majority of mobile homes have traditionally been sold, financed, and insured.

The Under $20,000 New Home Market



*Construction Reports C25-12 Bureau of Census
†Estimated — Elrick & Lavidge, Inc

1972 Comparison Mobile Home Shipments and Sales of Single Family Site Built Homes**

	Under $15,000	Under $20,000	Under $25,000	All Prices
Site-Built Homes*	15,000	141,000	290,000	717,000
Mobile Homes	575,940	575,940	575,940	575,940
Total	590,940	716,940	865,940	1,292,940
Mobile Home Share	97%	80%	67%	45%

*U.S. Dept. of Commerce, Bureau of Census Data Conventional Homes — Construction Reports (C25-72-12) issued 3/72

**Contractor & owner built homes and homes built for rent are excluded (Total 1972 exclusions, 592,300 units)

MOBILE HOME FAMILIES*

The 1970 U.S. Census revealed that more than 7¾ million people live in mobile homes and the median mobile home family has 2.3 persons. Other data are as follows:

	1970 Census Mobile Home Households
Income of household heads	
Less than $5,000	35.9%
$5,000 to $6,999	17.3
$7,000 to $9,999	23.1
$10,000 to $14,999	18.0
$15,000 or more	5.7
Median dollars	$6,690
Persons in households	
1	20.4%
2	36.9
3	19.7
4	13.0
5	5.9
6	2.5
7 or more	1.6
Median persons	2.3
Household composition	
2 or more persons	79.6%
husband-wife	69.6
other male head	3.4
other female head	6.5
1 person	20.4

*Source: Metropolitan Housing Characteristics Series HC(2)-1 U.S. Department of Commerce 9/72

There are about 3.4 million mobile homes in use today as primary year-round dwellings. About 35% to 40% of these are located in mobile home communities.

PLANNED UNIT DEVELOPMENTS

Currently there are over 13,000 mobile home communities of 15 or more homes listed in a national directory that rates them for appearance, livability and management. These parks have well over 1 million mobile home spaces. Most developments being built today have an average of 175 sites.

Developers estimate that at least 60% space occupancy is necessary to meet operating expenses. The national average vacancy rate in 1972 was 5.6%.

The modern mobile home development provides paved sidewalks, adequate street lighting, underground utilities, off-street parking, green areas, as well as playgrounds, swimming pools and other recreational facilities. The majority of new mobile homes are placed in such communities. Therefore, the demand for modern mobile home developments has grown with the industry.

MHMA has worked constantly with local and federal government agencies to develop zoning ordinances and environmental standards that will create mobile home developments which are a credit to the community and a pleasure to the mobile home owner. The demand for budget housing has started a trend toward improved zoning laws that give greater attention to the design of mobile home communities as a part of overall city planning. This trend makes a bright future for the entire industry. Recommended zoning and control ordinances are available through the Land Development Division of the Association.

Park rentals vary from $30 to $100 per month, with the greatest percentage for a modern development ranging between $50 and $60 per month.

The average development cost per site ranges from $2,200 to $3,000, exclusive of land and varies considerably with the facilities and amenities that are provided.

More and more lending institutions are recognizing the feasibility of mobile home communities and are entering this field as a supplier of development funds as well as long term mortgage funds. Under their 207 section, FHA can guarantee loans on new mobile home rental developments up to 90% of appraised value. This has encouraged many new sources of financing.

IN THE FUTURE

The mobile home industry dominates the economical shelter market (under $20,000) because of manufacturing economies possible through its ability to produce a complete home within a factory and ship it to a homesite ready for occupancy. (See chart; page 7.) The National Commission on Urban Problems in 1968 set a housing goal of 2,600,000 new units (all prices) annually through 1978. To date, this goal has not been met. There are predictions that the increases in population and the demolition of obsolete buildings within the next 25 years may make it necessary for this country to build twice as many living units as exist today.

It is estimated that one-third of today's existing housing will be demolished and replaced by 1990. Another one-third of the new homes and apartments to be built during this same period will create new town areas within cities. The final one-third will be built in new communities where no cities presently exist. Because of the economic inability of the "stick" builder to produce homes in volume costing less than $20,000, home ownership will not be possible for many families unless they can buy some type of factory-built home.

Should the mobile home industry continue its future growth at the same pace as its 1963 to 1972 rate of 16%, it can be expected to produce more than a million homes annually by 1976. More immediately, it is anticipated that its 1973 production will increase by 8%.

While the production of modular buildings is not limited to the mobile home manufacturer, it was the "know-how" and experience of this industry that pioneered the mass production of modular or sectional homes and commercial buildings that has been accelerating in the 70's.

The future of the traditional mobile home industry appears to be strong in four areas:

1. **Single Site Occupancy.** About 50% of mobile homes are currently placed on individually owned property, in rural or small-town locations. This market is expected to grow with the demand for moderately priced housing and as mobile homes more closely resemble site-built homes in appearance and financing terms.

2. **Mobile Home Communities.** The traditional mobile home park with its inclusion of amenities for the use of the tenants has, in truth, been a pioneering effort in what the planners now call the Planned Unit Development. Heretofore, it has been most common for the mobile home dweller to own his own home and rent space and facilities provided by the developer. Now, however, we see a new type development based on the condominium concept beginning to appear. The home owner owns both his mobile home and the land beneath it. With the other home owners in the development, he owns the other facilities in common. A monthly service fee is paid to maintain these common facilities.

3. **Urban Housing.** Fixed site townhouses, row houses, duplexes, even highrise buildings are now being built from mobile units or "modules." The changing potential of the mobile/modular industry is in the ability of the manufacturing process to be adapted to the needs of sectional or multi-family homes.

4. **Vacation or Second Homes.** Approximately 95% of all mobile homes are currently used as primary residences. The market for second homes increases with the general economic growth of the nation as well as the increase in the segment of the population in the retirement age group. Most sources agree that 1,700,000 households already have second homes; this number is predicted to increase by 200,000 yearly. During this time, mobile homes could be expected to account for 25,000 to 30,000 second homes annually.

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TAFT AMENDMENT

AMENDMENT No. 147

On page 12, line 8, strike out "or".

On page 12, between lines 8 and 9, insert the following:

"(4) fail to issue a warranty required by section 114, issue a warranty which he knows or has reason to know does not meet the requirements of section 114, or fail or refuse to perform duties owing under such a warranty; or".

On page 12, line 9, strike out "(4)" and insert in lieu thereof "(5)".

On page 23, line 1, strike out "within a reasonable time" and insert in lieu thereof "promptly".

On page 25, line 17, after "CERTIFICATION" insert "AND WARRANTY".

On page 25, line 18, after "114." insert "(a)".

On page 25, after line 24, add the following:

"(b) Every manufacturer shall furnish to each first purchaser of a mobile home for purposes other than resale a warranty under which such manufacturer—

"(1) warrants that the mobile home meets all applicable standards under section 103; and

"(2) ~~agrees to repair, or replace if necessary, without cost to such purchaser, the mobile home or any part thereof if (A) such mobile home or part does not comply with any such standard, and (B) such purchaser gives written notice thereof to the manufacturer or to any agent designated by the manufacturer for the purpose of receiving such notice within one year (or such longer time period as the manufacturer shall establish) after the date of purchase, except that such notice shall not be required for repairs or replacements necessary within the time period described in this paragraph to correct any defect which is the subject of notification by the manufacturer pursuant to section 114(a)~~ in the event that the manufacturer and the first purchaser of a mobile home with respect to which a warranty under this section is required do not agree whether such mobile home or part thereof does in fact comply with any such standard, either the manufacturer or the first purchaser may request in writing that the Secretary make a determination whether there has in fact been such compliance. Upon receipt of any such request, the Secretary shall make such determination in writing as soon as practicable. The warranty required by this subsection shall contain notification to the first purchaser of his right to request such a determination from the Secretary.

(c) Manufacturer and dealer warrant that they, or one of them, shall take appropriate corrective action at the site of the mobile home in instances of noncompliance with the aforementioned standards for which they are respectively responsible, as provided in paragraph (b) (2) hereof, which becomes evident within one year from the date of the delivery of the mobile home to the buyer provided that the buyer gives written notice of such defects through the manufacturer and dealer at their business addresses not later than one year and 10 days after date of delivery to the original buyer.

warrants that the mobile home was manufactured in compliance with the standards specified under Section 103 of the National Mobile Home Safety Standards Act of 1973 and was delivered to the dealer's lot in such condition. Dealers shall warrant that the mobile home, when sold to the buyer, is in compliance with the standards specified under Section 103 of the National Mobile Home Safety Standards Act of 1973. Neither manufacturer nor dealer shall be liable for any defect in said mobile home which is the result of improper set up, move, materials furnished, or work done by persons other than manufacturer or dealer.

93D CONGRESS
1ST SESSION

S. 1348

IN THE SENATE OF THE UNITED STATES

MARCH 22, 1973

Mr. BROCK (for himself, Mr. BENNETT, Mr. HATHAWAY, Mr. SPARKMAN, and Mr. TOWER) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing and Urban Affairs

A BILL

To provide for the establishment of safety standards for mobile homes in interstate commerce, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Congress declares that the purpose of this Act is to reduce the amount of insurance costs, property damage, personal injury, and death resulting from mobile home accidents without any substantial increase in the retail price of a mobile home. Therefore, Congress determines that it is necessary to establish practical Federal safety standards for mobile homes in interstate commerce; to authorize mobile home safety research and development; to encourage and

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provide financial assistance for the development of State mobile home safety programs; and to provide that for the purposes of any Federal guarantee of a loan for the purchase of a mobile home or the making or investing in any such loan by a Federal savings and loan association, each such mobile home shall meet such Federal safety standards.

TITLE I—MOBILE HOME SAFETY STANDARDS

SHORT TITLE

SEC. 101. This Act may be cited as the "National Mobile Home Safety Standards Act of 1973".

DEFINITIONS

SEC. 102. As used in this title, the term—

(1) "dealer" means any person who is engaged in the sale and distribution of new mobile homes, primarily to persons who in good faith purchase any such mobile home for purposes other than resale;

(2) "defect" includes any substantial defect in the performance, construction, components, or materials of a mobile home;

(3) "distributor" means any person who is engaged in the sale and distribution of mobile homes for resale;

(4) "interstate commerce" means commerce between any place within a State and any place within another State, or between places within the same State through another State;

(5) "manufacturer" means any person engaged in manufacturing or assembling mobile homes, including any person engaged in importing mobile homes for resale;

(6) "mobile home" means a transportable structure which exceeds eight body feet in width and thirty-two body feet in length and is built on a chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities;

(6) "Mobile home" means a structure, transportable in one or more sections, which exceeds eight body feet in width, equipped with running gear, and designed to be used as a dwelling when connected to the required utilities;

(7) "mobile home safety" means the performance of a mobile home in such a manner that the public is protected against any unreasonable risk of the occurrence of accidents due to the design or construction of such mobile home, or any unreasonable risk of death or injury to the public if such accidents do occur;

(8) "mobile home safety standard" means a minimum, practicable standard for mobile home performance which meets the need for mobile home safety;

(9) "Secretary" means the Secretary of Housing and Urban Development;

(10) "State" includes each of the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Canal Zone, and American Samoa; and

(11) "United States district courts" means the

Federal District Courts of the United States and the United States courts of the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Canal Zone, and American Samoa.

FEDERAL MOBILE HOME SAFETY STANDARDS

SEC. 103. (a) The Secretary shall establish by order appropriate Federal mobile home safety standards. Each such Federal mobile home safety standard shall be practicable, shall meet the need for mobile home safety, and shall be stated in objective terms.

shall be reasonably consistent with nationally recognized standards as promulgated by the American National Standards Indtitute,

(b) The provisions of sections 551 through 559 of title 5, United States Code, shall apply to all orders establishing, amending, or revoking a Federal mobile home safety standard under this title.

(c) Each order establishing a Federal mobile home safety standard shall specify the date such standard is to take effect, which shall not be sooner than one hundred and eighty days or later than one year from the date such order is issued, unless the Secretary finds, for good cause shown, that an earlier or later effective date is in the public interest, and publishes his reasons for such finding.

(d) Whenever a Federal mobile home safety standard established under this title is in effect, no State or political subdivision of a State shall have any authority either to

home, any safety standard applicable to the same aspect of performance of such mobile home which is not identical to the Federal standard.

(e) ~~(c)~~ The Secretary may by order amend or revoke any Federal mobile home safety standard established under this section. Such order shall specify the date on which such amendment or revocation is to take effect, which shall not be sooner than one hundred and eighty days or later than one year from the date the order is issued, unless the Secretary finds, for good cause shown, that an earlier or later effective date is in the public interest, and publishes his reasons for such finding.

(f) In prescribing standards under this section, the Secretary shall—

(1) consider relevant available mobile home safety data, including the results of the research, development, testing, and evaluation activities conducted pursuant to this title, and those activities conducted by the American National Standards Institute Committee on Mobile Homes and Recreational Vehicles and the National Fire Protection Association to determine how to best protect the public;

(2) consult with such State or interstate agencies (including legislative committees) as he deems appropriate;

(3) consider whether any such proposed standard is reasonable, practicable, and appropriate for the particular type of mobile home for which it is prescribed;

(4) consider whether any such standard will place an undue financial burden upon manufacturers and distributors of mobile homes;

(5) consider whether any such standard will result in a substantial increase in the retail price of mobile homes; and

(6) consider the extent to which any such standard will contribute to carrying out the purpose of this title.

(g) The Secretary shall issue ~~initial~~ Federal mobile home safety standards upon the expiration of the one hundred and eighty day period which begins on the date of enactment of this Act. ~~The Secretary shall issue new and revised Federal mobile home safety standards under this title upon the expiration of the three hundred and sixty day period which begins on the date of enactment of this Act.~~

NATIONAL MOBILE HOME SAFETY ADVISORY COUNCIL

SEC. 104. (a) The Secretary shall establish a National Mobile Home Safety Advisory Council, consisting of nine members a majority of which shall be representatives of the general public, including representatives of Federal, State, and local governments, ~~and the remainder shall include~~ members of the American National Standards Institute Committee on Mobile Homes and

, the National Fire Protection Association

7 the remainder shall include

Recreational Vehicles and representatives of mobile home manufacturers, dealers, financers, ~~and~~ insurers, and suppliers.

(b) The Secretary shall consult with the Advisory Council before establishing, amending, or revoking any mobile home safety standard pursuant to the provisions of this title.

(c) Members of the National Mobile Home Safety Advisory Council may be compensated at a rate not to exceed $100 per diem (including traveltime) when engaged in the actual duties of the Advisory Council. Such members, while away from their homes or regular places of business, may be allowed travel expenses, including per diem in lieu of subsistence as authorized by section 5703 (b) of title 5, United States Code, for persons in the Government service employed intermittently. Payments under this section shall not render members of the Advisory Council employees or officials of the United States for any purpose.

JUDICIAL REVIEW OF ORDER

SEC. 105. (a) (1) In a case of actual controversy as to the validity of any order under section 103, any person who will be adversely affected by such order when it is effective may at any time prior to the sixtieth day after such order is issued file a petition with the United States court of appeals for the circuit wherein such person resides or has his principal place of business, for a judicial review of such or-

der. A copy of the petition shall be forthwith transmitted by the clerk of the court to the Secretary or other officer designated by him for that purpose. The Secretary thereupon shall file in the court the record of the proceedings on which the Secretary based his order, as provided in section 2112 of title 28 of the United States Code.

(2) If the petitioner applies to the court for leave to adduce additional evidence, and shows to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for the failure to adduce such evidence in the proceeding before the Secretary, the court may order such additional evidence (and evidence in rebuttal thereof) to be taken before the Secretary, and to be adduced upon the hearing, in such manner and upon such terms and conditions as to the court may seem proper. The Secretary may modify his findings as to the facts, or make new findings, by reason of the additional evidence so taken, and he shall file such modified or new findings, and his recommendation, if any, for the modification or setting aside of his original order, with the return of such additional evidence.

(3) Upon the filing of the petition referred to in paragraph (1) of this subsection, the court shall have jurisdiction to review the order in accordance with the provisions

of sections 701 through 706 of title 5, United States Code, and to grant appropriate relief.

(4) The judgment of the court affirming or setting aside, in whole or in part, any such order of the Secretary shall be final, subject to review by the Supreme Court of the United States upon certiorari or certification as provided in section 1254 of title 28 of the United States Code.

(5) Any action instituted under this subsection shall survive, notwithstanding any change in the person occupying the office of Secretary of any vacancy in such office.

(6) The remedies provided for in this subsection shall be in addition to and not in substitution for any other remedies provided by law.

(b) A certified copy of the transcript of the record and proceedings under this section shall be furnished by the Secretary to any interested party at his request and payment of the costs thereof, and shall be admissible in any criminal, exclusion of imports, or other proceeding arising under or in respect of this title, irrespective of whether proceedings with respect to the order have previously been initiated or become final under subsection (a).

RESEARCH, TESTING, DEVELOPMENT, AND TRAINING

SEC. 106. (a) The Secretary shall conduct research, testing, development, and training necessary to carry out the purposes of this title, including, but not limited to—

(1) collecting data from any source for the purpose of determining the relationship between mobile home performance characteristics and (A) accidents involving mobile homes, and (B) the occurrence of death, or personal injury resulting from such accidents;

(2) procuring (by negotiation or otherwise) experimental and other mobile homes for research and testing purposes;

(3) selling or otherwise disposing of test mobile homes and reimbursing the proceeds of such sale or disposal into the current appropriation available for the purpose of carrying out this title.

(b) The Secretary is authorized to conduct research, testing, development, and training as authorized to be carried out by subsection (a) of this section by making grants for the conduct of such research, testing, development, and training to States, interstate agencies, and nonprofit institutions.

(c) Whenever the Federal contribution for any research or development activity authorized by this title encouraging mobile home safety is more than minimal, the Secretary shall include in any contract, grant, or other arrangement for such research or development activity, provisions effective to insure that all information, uses, processes, patents, and other developments resulting from that activity will be

made freely and fully available to the general public. Nothing herein shall be construed to deprive the owner of any background patent of any right which he may have thereunder.

COOPERATION WITH PUBLIC AND PRIVATE AGENCIES

SEC. 107. The Secretary is authorized to advise, assist, and cooperate with, other Federal departments and agencies, and State and other interested public and private agencies, including the American National Standards Institute Committee on Mobile Homes and Recreational Vehicles and the National Fire Protection Association, in the planning and development of—

(1) mobile home safety standards; and

(2) methods for inspecting and testing to determine compliance with mobile home safety standards.

PROHIBITED ACTS

SEC. 108. (a) No person shall—

(1) manufacture for sale, sell, offer for sale, or introduce or deliver for introduction in interstate commerce, or import into the United States, any mobile home manufactured on or after the date any applicable Federal mobile home safety standard takes effect under this title unless it is in conformity with such standard, ~~except as provided in subsection (b) of this section;~~

(2) fail or refuse access to or copying of records, or fail to make reports or provide information, or fail

or refuse to permit entry or inspection, as required under section 112;

(3) fail to issue a certificate required by section 114, or issue a certificate to the effect that a mobile home conforms to all applicable Federal mobile home safety standards, if such person in the exercise of due care has reason to know that such certificate is false or misleading in a material respect; or

(4) fail to furnish notification of any defect as required by section 113.

~~(b) (1) Paragraph (1) of subsection (a) shall not~~ apply to the sale, the offer for ~~sale, or the introduction or de-~~ livery for introduction in interstate ~~commerce of any mobile home after the first purchase of it~~ in ~~good faith for purposes other than~~ resale. ~~In order to assure a continuing and effective national mobile home safety program, it is the policy of Congress to encourage the~~ adoption ~~of State inspection of used mobile homes. Therefore, to that end the Secretary shall conduct a thorough study and investigation to determine the adequacy of mobile home safety~~ standards ~~and mobile home inspection~~ requirements ~~and procedures applicable to used mobile homes in each State, and the effect of programs authorized by this title upon such standards, requirements, and~~ procedures for used mobile homes, ~~and report to Congress as soon as practicable, but not later than one year~~

after the date of enactment of this Act, the results of such study, and recommendations for such additional legislation as he deems necessary to carry out the purposes of this title. Such report shall also include recommendations by the Secretary relating to the problems of disposal of used mobile homes. As soon as practicable after the submission of such report, but no later than one year from the date of submission of such report, the Secretary, after consultation with the Council and such interested public and private agencies and groups as he deems advisable, shall establish uniform Federal mobile home safety standards applicable to all used mobile homes. Such standards shall be expressed in terms of mobile home safety performance. The Secretary is authorized to amend or revoke such standards pursuant to this Act.

(b)(1)(2) Paragraph (1) of subsection (a) shall not apply to any person who establishes that he did not have reason to know in the exercise of due care that such mobile home is not in conformity with applicable Federal mobile home safety standards, or to any person who, prior to such first purchase, holds a certificate issued by the manufacturer or importer of such mobile home, to the effect that such mobile home conforms to all applicable Federal mobile home safety standards, unless such person knows that such mobile home does not so conform.

(2) ~~(3)~~ A mobile home offered for importation in violation of paragraph (1) of subsection (a) shall be refused admission into the United States under joint regulations issued by the Secretary of the Treasury and the Secretary; except that the Secretary of the Treasury and the Secretary may, by such regulations, provide for authorizing the importation of such mobile home into the United States upon such terms and conditions (including the furnishing of a bond) as may appear to them appropriate to insure that any such mobile home will be brought into conformity with any applicable Federal mobile home safety standard prescribed under this title, or will be exported or abandoned to the United States.

(3) ~~(4)~~ The Secretary of the Treasury and the Secretary may, by joint regulations, permit the temporary importation of any mobile home after the first purchase of it in good faith for purposes other than resale.

(4) ~~(5)~~ Paragraph (1) of subsection (a) shall not apply in the case of a mobile home intended solely for export, and so labeled or tagged on the mobile home itself and on the outside of the container, if any, which is exported.

(c) Compliance with any Federal mobile home safety standard issued under this title does not exempt any person from any liability under common law.

CIVIL PENALTY

SEC. 109. (a) Whoever violates any provision of sec-

tion 108, or any regulation issued thereunder, shall be subject to a civil penalty of not to exceed $1,000 for each such violation. Such violation of a provision of section 108, or regulations issued thereunder, shall constitute a separate violation with respect to each mobile home or with respect to each failure or refusal to allow or perform an act required thereby, except that the maximum civil penalty shall not exceed $400,000 for any related series of violations.

(b) Any such civil penalty may be compromised by the Secretary. In determining the amount of such penalty, or the amount agreed upon in compromise, the appropriateness of such penalty to the size of the business of the person charged and the gravity of the violation shall be considered. The amount of such penalty, when finally determined, or the amount agreed upon in compromise, may be deducted from any sums owing by the United States to the person charged.

JURISDICTION AND VENUE

SEC. 110. (a) The United States district courts shall have jurisdiction, for cause shown and subject to the provisions of rule 65 (a) and (b) of the Federal Rules of Civil Procedure, to restrain violations of this title, or to restrain the sale, offer for sale, or the introduction or delivery for introduction, in interstate commerce, or the importation into the United States, of any mobile home which is determined,

prior to the first purchase of such mobile home in good faith for purposes other than resale, not to conform to applicable Federal mobile home safety standards prescribed pursuant to this title, upon petition by the appropriate United States attorney or the Attorney General on behalf of the United States. Whenever practicable, the Secretary shall give notice to any person against whom an action for injunctive relief is contemplated and afford him an opportunity to present his views, and, except in the case of a knowing and willful violation, shall afford him reasonable opportunity to achieve compliance. The failure to give such notice and afford such opportunity shall not preclude the granting of appropriate relief.

(b) In any proceeding for criminal contempt for violation of an injunction or restraining order issued under this section, which violation also constitutes a violation of this Act, trial shall be by the court or, upon demand of the accused, by a jury. Such trial shall be conducted in accordance with the practice and procedure applicable in the case of proceedings subject to the provisions of rule 42 (b) of the Federal Rules of Criminal Procedure.

(c) Actions under subsection (a) of this section and section 109 (a) may be brought in the district wherein any act or transaction constituting the violation occurred, or in the district wherein the defendant is found or is an inhabi-

tant or transacts business, and process in such cases may be served in any other district of which the defendant is an inhabitant or wherever the defendant may be found.

(d) In any actions brought under subsection (a) of this section and section 109 (a), subpenas for witnesses who are required to attend a United States district court may run into any other district.

(e) It shall be the duty of every manufacturer offering a mobile home for importation into the United States to designate in writing an agent upon whom service of all administrative and judicial processes, notices, orders, decisions, and requirements may be made for and on behalf of such manufacturer, and to file such designation with the Secretary, which designation may from time to time be changed by like writing, similarly filed. Service of all administrative and judicial processes, notices, orders, decisions, and requirements may be made upon such manufacturer by service upon such designated agent at his office or usual place of residence with like effect as if made personally upon such manufacturer, and in default of such designation of such agent, service of process, notice, order, requirements, or decision in any proceeding before the Secretary or in any judicial proceeding for enforcement of this title or any standards prescribed pursuant to this title may be made by posting such process, no-

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tice, order, requirement, or decision in the office of the Secretary.

NONCOMPLIANCE WITH STANDARDS

SEC. 111. (a) If any mobile home is determined not to conform to applicable Federal mobile home safety standards, or contains a defect which relates to mobile home safety, after the sale of such mobile home by a manufacturer or a distributor to a distributor or a dealer and prior to the sale of such mobile home by such distributor or dealer—

~~(1) the~~ manufacturer ~~or distributor,~~ as ~~the case~~ may ~~be~~, shall ~~immediately repurchase such mobile home from such~~ distributor ~~or dealer~~ at ~~the price~~ paid ~~by such distributor~~ or ~~dealer~~, plus ~~all transportation charges involved~~ and a ~~reasonable~~ reimbursement of ~~not less than 1 per centum per month of such price paid prorated from the date of receipt by certified mail of notice of such nonconformance to the date of repurchase by the manufacturer~~ or distributor; ~~or~~

~~(2)~~ the manufacturer or distributor, as the case may be, at his own expense, shall immediately furnish the purchasing distributor or dealer the required conforming part or parts or equipment for installation by the distributor or dealer on or in such mobile home, and for the installation involved the manufacturer shall re-

imburse such distributor or dealer for the reasonable value of such installation plus a reasonable reimbursement of not less than 1 per centum per month of the manufacturer's or distributor's selling price prorated from the date of receipt by certified mail of notice of such nonconformance to the date such vehicle is brought into conformance with applicable Federal standards, so long as the distributor or dealer proceeds with reasonable diligence with the installation after the required part or equipment is received.

(b) In the event that any manufacturer or distributor refuses to comply with the requirements ~~of paragraphs (1) and (2)~~ of subsection (a), then the distributor or dealer, as the case may be, to whom such nonconforming mobile home has been sold may bring suit against such manufacturer or distributor in any district court of the United States in the district in which such manufacturer or distributor resides, or is found, or has an agent, without respect to the amount in controversy, and shall recover the damage by him sustained, as well as all court costs plus reasonable attorneys' fees. Any action brought pursuant to this section shall be forever barred unless commenced within three years after the cause of action shall have accrued.

(c) The value of such installations and such reasonable reimbursements as specified in subsection (a) of this section

shall be fixed by mutual agreement of the parties, or failing such agreement, by the court pursuant to the provisions of subsection (b) of this section.

INSPECTION OF MOBILE HOMES AND RECORDS

SEC. 112. (a) The Secretary is authorized to conduct such inspection and investigation as may be necessary to enforce Federal mobile home safety standards established under this title. He shall furnish the Attorney General and, when appropriate, the Secretary of the Treasury any information obtained indicating noncompliance with such standards, for appropriate action.

(b) For purposes of enforcement of this title, officers or employees duly designated by the Secretary, upon presenting appropriate credentials and a written notice to the owner, operator, or agent in charge, are authorized—

(1) to enter, at reasonable times, any factory, warehouse, or establishment in which mobile homes are manufactured, or held for introduction into interstate commerce or are held for sale after such introduction; and

(2) to inspect, at reasonable times and within reasonable limits and in a reasonable manner, such factory, warehouse, or establishment.

Each such inspection shall be commenced and completed with reasonable promptness.

(c) Every manufacturer, distributor, and dealer of

mobile homes shall establish and maintain such records, make such reports, and provide such information as the Secretary may reasonably require to enable him to determine whether such manufacturer, distributor, or dealer has acted or is acting in compliance with this title and mobile home safety standards prescribed pursuant to this title and shall, upon request of an officer or employee duly designated by the Secretary, permit such officer or employee to inspect appropriate books, papers, records, and documents relevant to determining whether such manufacturer, distributor, or dealer has acted or is acting in compliance with this title and mobile home safety standards prescribed pursuant to this title.

(d) Every manufacturer of mobile homes shall provide to the Secretary such performance data and other technical data related to performance and safety as may be required to carry out the purposes of this Act. ~~The Secretary is authorized to require the manufacturer to give such notification of such performance and technical data that the Secretary determines necessary to carry out the purposes of this Act, to~~

~~(1) each prospective purchaser of a mobile home before its first sale for purposes other than resale at each location where any such manufacturer's mobile homes are offered for sale by a person with whom such manufacturer has a contractual, proprietary, or other legal relationship in a manner determined by the Secretary~~

~~to be appropriate, which may include, but is not limited to, printed matter (A) available for retention by such prospective purchaser and (B) sent by mail to such prospective purchaser upon his request; and~~

~~(2) the first person who purchases a mobile home for purposes other than resale, at the time of such purchase, or in printed matter placed in the mobile home.~~

(e)~~(c)~~ All information reported to or otherwise obtained by the Secretary or his representative pursuant to subsection (b) or (e) which contains or relates to a trade secret or other matter referred to in section 1905 of title 18 of the United States Code, shall be considered confidential for the purpose of that section, except that such information may be disclosed to other officers or employees concerned with carrying out this title or when relevant in any proceeding under this title. Nothing in this section shall authorize the withholding of information by the Secretary or any officer or employee under his control, from the duly authorized committees of the Congress.

NOTIFICATION OF DEFECTS

SEC. 113. (a) Every manufacturer of mobile homes shall furnish notification of any defect in any mobile home produced by such manufacturer which he determines, in good faith, relates to ~~mobile home safety~~ life safety factors, to the purchaser of such

mobile home, within a reasonable time after such manufacturer has discovered such defect.

(b) The notification required by subsection (a) shall be accomplished—

(1) by certified mail to the first purchaser (not including any dealer of such manufacturer) of the mobile home containing such a defect, and to any subsequent purchaser to whom has been transferred any warranty on such mobile home; and

(2) by certified mail or other more expeditious means to the dealer or dealers of such manufacturer to whom such mobile home was delivered.

(c) The notification required by subsection (a) shall contain a clear description of such defect, an evaluation of the risk to ~~mobile home~~ life safety reasonably related to such defect, and a statement of the measures to be taken to repair such defect.

(d) Every manufacturer of mobile homes, shall furnish to the Secretary a true or representative copy of all notices, bulletins, and other communications to the dealers of such manufacturer or purchasers of mobile homes of such manufacturer regarding any life safety defect in such mobile home sold or serviced by such dealer. The Secretary shall disclose so much of the information contained in such notice or other information obtained under section 112 (a) to the public as he

deems will assist in carrying out the purposes of this title, but he shall not disclose any information which contains or relates to a trade secret or other matter referred to in section 1905 of title 18 of the United States Code, unless he determines that it is necessary to carry out the purposes of this Act.

(e) If through testing, inspection, investigation, or research carried out pursuant to this title, or examination of reports pursuant to subsection (d) of this section, or otherwise, the Secretary determines that any mobile home—

(1) does not comply with an applicable Federal mobile home safety standard prescribed pursuant to section 103; or

(2) contains a defect which relates to ~~mobile home~~ life safety;

then he shall immediately notify the manufacturer of such mobile home of such defect or failure to comply. The notice shall contain the findings of the Secretary and shall include all information upon which the findings are based. The Secretary shall afford such manufacturer an opportunity to present his views and evidence in support thereof, to establish that there is no failure of compliance or that the alleged defect does not affect ~~mobile home~~ life safety. If after such presentation by the manufacturer the Secretary determines that such mobile home does not comply with applicable Federal

safety standards, or contains a defect which relates to ~~mobile home~~ life safety, the Secretary shall direct the manufacturer to furnish the notification specified in subsection (c) of this section to the purchaser of such mobile home as provided in subsections (a) and (b) of this section.

(f) Every manufacturer of mobile homes shall maintain a record of the name and address of the first purchaser, other than a dealer or distributor, of each mobile home produced by that manufacturer. The Secretary may establish, by order, procedures to be followed by manufacturers in establishing and maintaining such records, including procedures to be followed by distributors and dealers to assist manufacturers to secure the information required by this subsection which will not affect the obligation of manufacturers under this subsection. Such procedures shall be reasonable for the particular type of mobile home for which they are prescribed.

CERTIFICATION OF CONFORMITY WITH SAFETY STANDARDS

SEC. 114. Every manufacturer or distributor of a mobile home shall furnish to the distributor or dealer at the time of delivery of each such mobile home by such manufacturer, the certification that each such mobile home conforms to all applicable Federal safety standards. Such certification shall be in the form of a label or tag permanently affixed to each such mobile home.

NATIONAL MOBILE HOME SAFETY BUREAU

SEC. 115. The Secretary shall carry out the provisions of this title through a National Mobile Home Safety Bureau (hereinafter referred to as the "Bureau"), which he shall establish in the Department of Housing and Urban Development. The Bureau shall be headed by an Assistant Secretary who shall be appointed by the President, by and with the advice and consent of the Senate. The Assistant Secretary shall be a citizen of the United States, and shall be appointed with due regard for his fitness to discharge efficiently the powers and duties delegated to him pursuant to this title. The Assistant Secretary shall perform such duties as are delegated to him by the Secretary.

EFFECT UPON ANTITRUST LAWS

SEC. 116. Nothing contained in this title shall be deemed to exempt from the antitrust laws of the United States any conduct that would otherwise be unlawful under such laws, or to prohibit under the antitrust laws of the United States any conduct that would be lawful under such laws.

USE OF RESEARCH AND TESTING FACILITIES OF PUBLIC AGENCIES

SEC. 117. The Secretary, in exercising the authority under this title, shall utilize the services, research and testing facilities of public agencies to the maximum extent practicable in order to avoid duplication.

RULES AND REGULATIONS

SEC. 118. The Secretary is authorized to issue, amend, and revoke such rules and regulations as he deems necessary to carry out this title.

ANNUAL REPORT TO CONGRESS

SEC. 119. (a) The Secretary shall prepare and submit to the President for transmittal to the Congress on March 1 of each year a comprehensive report on the administration of this title for the preceding calendar year. Such report shall include but not be restricted to (1) a thorough statistical compilation of the accidents and injuries occurring in such year; (2) a list of Federal mobile home safety standards prescribed or in effect in such year; (3) the degree of observance of applicable Federal mobile home standards; (4) a summary of all current research grants and contracts together with a description of the problems to be considered by such grants and contracts; (5) an analysis and evaluation, including relevant policy recommendations, of research activities completed and technological progress achieved during such year; (6) a statement of enforcement actions including judicial decisions, settlements, or pending litigation during such year; (7) the extent to which technical information was disseminated to the scientific community and consumer-oriented information was made available to mobile

home owners; and (8) a list of all State plans in effect pursuant to section 120 and an evaluation of each such plan.

(b) The report required by subsection (a) of this section shall contain such recommendations for additional legislation as the Secretary deems necessary to promote cooperation among the several States in the improvement of mobile home safety and to strengthen the national mobile home program.

STATE PLANS

SEC. 120. (a) Nothing in this title shall prevent any State agency or court from asserting jurisdiction under State law over any mobile home safety issue with respect to which, no standard has been established pursuant to the provisions of section 103.

(b) Any State which, at any time, desires to assume responsibility for development and enforcement of mobile home safety standards relating to any safety issue with respect to which a Federal standard has been established under section 103, shall submit to the Secretary a State plan for the development of such standards and their enforcement.

(c) The Secretary shall approve the plan submitted by a State under subsection (b), or any modification thereof, if such plan in his judgment—

(1) designates a State agency or agencies as the

agency or agencies responsible for administering the plan throughout the State;

(2) provides for the development and enforcement of mobile home safety standards which are identical to the standards promulgated under section 103;

(3) provides for a right of entry and inspection of all factories, warehouses, or establishments in such State in which mobile homes are manufactured, and which is at least as effective as that provided in section 112;

(4) contains satisfactory assurances that such agency has or will have the legal authority and qualified personnel necessary for the enforcement of such standards;

(5) give satisfactory assurances that such State will devote adequate funds to the administration and enforcement of such standards;

(6) requires manufacturers, distributors, and dealers in such State to make reports to the Secretary in the same manner and to the same extent as if the State plan were not in effect; and

(7) provides that the State agency will make such reports to the Secretary in such form and containing such information, as the Secretary shall from time to time require.

(d) If the Secretary rejects a plan submitted under subsection (b), he shall afford the State submitting the plan

due notice and opportunity for a hearing before so doing.

(e) After the Secretary approves a State plan submitted under subsection (b), he may, but shall not be required to, exercise his authority under sections 106, 108, 109, 112, and 113 with respect to enforcement of standards established under section 103 for the period specified in the next sentence. The Secretary may exercise the authority referred to above until he determines, on the basis of actual operations under the State plan, that the criteria set forth in subsection (c) are being applied, but he shall not make such determination for at least three years after the plan's approval under subsection (c). Upon making the determination referred to in the preceding sentence, the provisions of sections 108, 109, 111, 112, and 113, and standards promulgated under section 103 of this title, shall not apply with respect to any mobile home safety issues covered under the plan, but the Secretary may retain jurisdiction under the above provisions in any proceeding commenced under section 108 or 109 before the date of determination.

(f) The Secretary shall, on the basis of reports submitted by the State agency and his own inspections, make a continuing evaluation of the manner in which each State having a plan approved under this section is carrying out such plan. Whenever the Secretary finds, after affording due notice and opportunity for a hearing, that in the admin-

istration of the State plan there is a failure to comply substantially with any provision of the State plan, he shall notify the State agency of his withdrawal of approval of such plan. Upon receipt of such notice by such State agency such plan shall cease to be in effect, but the State may retain jurisdiction in any case commenced before the withdrawal of the plan in order to enforce mobile home standards under the plan whenever the issues involved do not relate to the reasons for the withdrawal of the plan.

(g) Each State may obtain a review of each decision of the Secretary withdrawing approval of or rejecting its plan by filing in the United States court of appeals for the circuit in which such State is located within thirty days following receipt of notice of such decision, a petition to modify or set aside in whole or in part the action of the Secretary. A copy of such petition shall forthwith be served upon the Secretary, and thereupon the Secretary shall certify and file in the court the record upon which the decision complained of was issued as provided in section 2112 of title 28, United States Code. Unless the court finds that the Secretary's decision in rejecting a proposed State plan or withdrawing his approval of such a plan is not supported by substantial evidence the court shall affirm the Secretary's decision. The judgment of the court shall be subject to review by the Supreme Court of the United States upon certiorari or cer-

tification as provided in section 1254 of title 28, United States Code.

GRANTS TO THE STATES

SEC. 121. (a) The Secretary is authorized to make grants to the States which have designated a State agency under section 120 to assist them—

(1) in identifying their needs and responsibilities in the area of mobile home safety standards; or

(2) in developing State plans under section 120.

(b) The Governor of each such State shall designate the appropriate State agency for receipt of any grant made by the Secretary under this section.

(c) Any State agency designated by the Governor of the State desiring a grant under this section shall submit an application therefor to the Secretary. The Secretary shall review and either accept or reject such application.

(d) The Federal share for each State grant under subsection (a) of this section may not exceed 90 per centum of the total cost of the application. In the event the Federal share for all States under such subsection is not the same, the differences among the States shall be established on the basis of objective criteria.

(e) The Secretary is authorized to make grants to the States to assist them in administering and enforcing programs for mobile home safety contained in State plans ap-

proved by the Secretary pursuant to section 120 of this title. The Federal share for each State grant under this subsection may not exceed 50 per centum of the total cost to the State of such a program. The last sentence of subsection (d) shall be applicable in determining the Federal share under this subsection.

AUTHORIZATION OF APPROPRIATIONS

SEC. 122. There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this title.

EFFECTIVE DATE

SEC. 123. The provisions of this title shall take effect upon the expiration of the one-hundred-eighty-day period which begins on the date of the enactment of this Act.

TITLE II—CHANGES IN EXISTING LAW

HOME OWNERS' LOAN ACT OF 1933

SEC. 201. The third paragraph of section 5(c) of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464(c)) is amended by striking out clause (B) and inserting in lieu thereof the following:

"(B) any loan made for the purchase of a mobile home which meets or exceeds the mobile home safety standards established under the National Mobile Home Safety Standards Act of 1973."

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NATIONAL HOUSING ACT

SEC. 202. The last sentence of the second paragraph of section 2(a) of the National Housing Act (12 U.S.C. 1703 (a)) is amended by—

(1) striking out "the livability and durability of the mobile home and" in clause (i);

(2) striking out "and" after the semicolon at the end of clause (i); and

(3) striking out the period at the end of clause (ii) and adding in lieu thereof "; and (iii) require that the mobile home meets or exceeds the mobile home safety standards established under the National Mobile Home Safety Standards Act of 1973."

TITLE 38, UNITED STATES CODE

SEC. 203. Section 1819 of title 38, United States Code, is amended by—

(1) striking out subsection (i) and inserting in lieu thereof the following:

"(i) No loan for the purchase of a mobile home shall be guaranteed under this section unless—

"(1) the mobile home meets or exceeds the mobile home safety standards established under the National Mobile Home Safety Standards Act of 1973; and

"(2) the lot, if any, meets or exceeds standards prescribed by the Administrator for the planning, main-

tenance, and development of mobile home sites which are attractive residential areas and which are free from, and do not substantially contribute to, adverse scenic or environmental conditions.

For the purpose of assuring compliance with such mobile home safety standards, the Administrator shall from time to time inspect the manufacturing process of mobile homes to be sold to veterans and conduct random onsite inspections of mobile homes purchased with assistance under this chapter."; and

(2) striking out "standards prescribed by the Administrator" in clause (1) of subsection (j) and inserting in lieu thereof "safety standards required".

EFFECTIVE DATE

SEC. 204. The provisions of this title shall apply with respect to any loan application filed, pursuant to the provisions of the Home Owners' Loan Act of 1933, the National Housing Act, or section 1819 of title 38, United States Code, as the case may be, after the effective date of title I of this Act.

MOBILE HOME MANUFACTURERS ASSOCIATION,
Chantilly, Va., August 2, 1973.

Hon. JOHN J. SPARKMAN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR SPARKMAN: We appreciate having the opportunity to testify on the mobile home safety legislation during the recent Housing Subcommittee hearings. After listening to the statements of a number of witnesses, we would like at this time to submit some additional material and note a few classifications that we feel are needed.

Enclosed is a copy of our Model State Mobile Home Warranty Bill, as requested by the Chairman. We are also enclosing a copy of the State of Wisconsin's mobile home standards bill that has passed the Senate and is presently being considered in the House. The state of Wisconsin has adopted the ANSI Code with only one exception at this point. They require four-inch vents rather than the three-inch standard plumbing vent. The new Wisconsin ANSI bill (Assembly Bill No. 569), which provides for enforcement of the code with the one deviation above stated, will replace the former measure known as the "Panelized Housing Act", which recognized ANSI and the three-inch plumbing vent standard but had no provisions for enforcement.

Mr. Fosdick, representing the State of Wisconsin, indicated that it was "less than coincidental that the ANSI committee is all industry people". We are enclosing a list of the members of the American National Standards Institute's Committee on Mobile Homes. Included in this list are representatives of the National Bureau of Standards, the State of Oregon's Department of Commerce, Underwriter's Laboratories, the Fire Marshals Association of North America and many others that have absolutely no vested interest in the mobile home industry.

In the conversation between Senator Proxmire and Congressman Frey, Senator Proxmire made the point that in Florida there seemed to be only six men to inspect 700,000 mobile homes existing in Florida at the present time. We would like to point out that the mobile homes already existing are not those inspected by the six Florida inspectors. They inspect only those new mobile homes produced and sold in the state each year.

We would also like to indicate that the mobile home industry fully supports the concept of unannounced plant inspections as the proper form for mobile home safety inspections. This is already commonplace in the industry and has been for a number of years.

Regarding the discussion concerning the different requirements for building standards for Wisconsin and Florida, we would like to point out that oftentimes a mobmile home purchased in one state will be moved to another. We feel that the legislation would better serve the consumer if the industry were allowed to continue to build to a single performance-type standard. This would assure that mobile home construction would be standardized and equally safe, no matter in which state is was produced. The industry recently responded to a request by the Council on Environmental Quality to increase the insulation in all new mobile homes in support of the nation's drive to conserve energy. This increased insulation requirement will create a mobile home which will perform better under extreme hot or cold climatic conditions. A performance-type standard such as the one now in use by the industry is responsive to changes or variations without disturbing the integrity of the basic standard.

We feel that the ANSI A119.1 Standard has been a very workable standard in recent years. Enclosed is a list of items that have been adopted by the ANSI committee between 1970 and 1973. These are examples of the increasing awareness of safety standards that has been demonstrated by the Mobile Home Committee of the American National Standards Institute.

In further support of S. 898, I am enclosing a copy of an article indicating that a Portland, Oregon, Federal Savings and Loan Association made a determination to finance mobile homes on a 20-year basis before November of 1971. This article indicates that the concept of 20-year financing for mobile homes is not a new one.

Also attached is a definition of "life safety" which we propose for addition to Section 102.

Again, thank you for your time and consideration in the hearings.

Sincerely,

JOHN M. MARTIN,
President.

Proposed Mobile Home Bill

An Act to provide for establishment of required warranty provisions relating to the sale of mobile homes.

SECTION 1. SHORT TITLE

This Act shall be known and may be cited as "The Uniform Mobile Homes Warranty Act."

SECTION 2. DEFINITIONS

Unless clearly indicated otherwise by the context, the following words and terms when used in this Act, for the purpose of this Act, shall have the following meanings:

(a) "Dealer" means any person, other than the manufacturer, as defined in this Act, who sell three or more mobile homes in any consecutive 12-month period.

(b) "Manufacturer" means any person who manufacturers mobile homes.

(c) "Mobile Home" means a moveable or portable unit, designed and constructed to be towed on its own chasis (comprised of frames and wheels), and designed to be connected to utilities for year-round occupancy. The term shall include: (1) units containing parts that may be folded, collapsed or telescoped when being towed and that may be expanded to provide additional cubic capacity, and (2) units composed of two or more separately towable components designed to be joined into one integral unit capable of being separataed again into the components for repeated towing. The term shall include units designed to be used for residential, commercial, educational or industrial purposes.

SECTION 3. ESTABLISHMENT OF WARRANTY

After the effective date of this Act, all new mobile homes sold by a mobile home dealer situated in this State shall be covered by the warranty hereinafter specified. Such warranty shall respectively apply to the manufacturer of the mobile home and to the dealer who sells the mobile home to the buyer in accordance with the terms of the warranty hereinafter specified.

SECTION 4. WRITTEN WARRANTY AND CERTAIN TERMS REQUIRED

Each mobile home sold by a dealer situated in this State shall be covered by a written warranty from the manufacturer or dealer and shall contain as a minimum, the following terms:

(A) Defects. Manufacturer warrants that the mobile home was manufactured free from any substantial defects in materials or workmanship and was delivered to the dealer in such condition. Dealer shall warrant that the mobile home when sold to the buyer is free from any substantial defects in materials or workmanship. Neither manufacturer nor dealer shall be liable for any defect in said mobile home which is the result of work done or materials supplied by persons other than manufacturer or dealer.

(B) Corrective Action. Manufacturer and dealer warrant that they, or one of them, shall take appropriate corrective action at the site of the mobile home in instances of substantial defects in materials or workmanship, for which they are responsible, which become evident within one year from the date of the delivery of the mobile home to the buyer, provided that the buyer or any one to whom he has resold the mobile home gives written notice of such defects to the manufacturer and dealer at their business addresses not later than one year and 10 days after date of delivery to the original buyer.

SECTION 5. CUMULATIVE REMEDIES; PROHIBITION AGAINST WAIVER

The required warranty provided for in this Act shall be in addition to and not in derogation of any other rights and privileges which the buyer may have under any other law or instrument. The manufacturer or dealer shall not require the buyer to waive his rights under this Act and any such waiver shall be deemed contrary to public policy and shall be unenforceable and void.

Life safety violations are those standards violations that would seriously affect the life and safety of the mobile home inhabitants.

STANDARD REQUIREMENTS FROM YEARS 1970–73

Item No. 1

(a) Safety glass (window); requirement—February 8, 1972; ANSI Standard 1972.

(b) Egress window (means of emergency escape in case of fire similar to that required by other types of housing); requirement—January 26, 1972 by NFPA; requirement—July 17, 1972 by industry.

Item No. 2

(a) Flame spread requirement (interior wall and ceiling panelling materials); requirement—January 1971 by industry; end of moratorium—May 1, 1971.

Item No. 3

(a) Ground-Fault Equipment (the use of Ground-fault equipment in conjunction with exterior receptacles); requirement—January 1, 1973.

Item No. 4

(a) Door (size change from 22'' clear opening to 28'' clear opening); requirement—approved by Board September 1972; requirement—May 1973 by NFPA.

Item No. 5

(a) Truss Test; requirement—1969 Standard; enforced by industry 1970.

Item No. 6

(a) Symposium (ANSI A119.1 Interpretive Symposium). Held in San Antonio, Pittsburgh, Tallahassee covered all aspects of the Standard. Approximately 250 people from the industry attending these Symposia. August 1972–December 1972–March 1973.

Item No. 7

(a) Tie-downs (anchorage system); proposed—March 1972; ANSI Committee adopted September 1972; requirement—January 1, 1973 (by MHMA, to be approved by NFPA May 1973.

Item No. 8

(a) Standards Enforcement Program:

1. Standard Violation Penalties (fines); requirement—July 1971 by MHMA-industry.
2. Inspection Report Forms; proposed—November 1970 (MHMA); requirement—July 1, 1971.
3. Training program (MHMA); requirement—April 5, 1971.
4. Form Guide (how to use new inspection forms); requirement—July 1, 1971.

Item No. 9

(a) Secondary Relief Vent (plumbing device, *not* intended for use as the only vent in a mobile home, and emphasis is placed on the word secondary) Standards Committee accepted April 18, 1972.

[From Northwest Trailer and Mobile Home News, November 1971]

NEW CODE SETS TREND—SALES TOPS IN NATION—20-YEAR LOANS IN OREGON

Oregon's burgeoning mobile home market is attracting national attention for 8,650 reasons, which we shall enumerate.

1. Guy E. Jaques Jr., President of Portland Federal Savings and Loan Association.

2. Harry F. Baker, Supervisor, Mobile Home and Recreational Division, Department of Commerce, state of Oregon.

8,648. The number of Oregon families who purchased mobile homes during the first nine months of 1971, representing a gain in sales of 134 per cent over the same period a year ago (3,700 retail sales) the greatest percentage gain in the United States.

Jaques startled the housing industry earlier this month by announcing Portland Federal's 20-year mobile home policy, the first in the nation.

Baker, who is already nationally known as a member of the executive board of the American National Standards Institute and is chairman of the subcommittee on mobile home park codes, and who is chairman of the new national organization, Code Administrators for Mobile Homes and Recreational Vehicles, is helping set up Oregon's new mobile home and recreational vehicle codes.

Let's start with Baker, who in Oregon is Supervisor of the Mobile Home and Recreational Division of the state Department of Commerce.

The division was created as a result of legislative action, Senate Bill 188 from the last Oregon session, to be exact, that removed administration and enforcement of Oregon's three mobile codes from three separate state agencies, added a fourth and put them all in the department of commerce.

Oregon's mobile home and recreational vehicle plumbing codes had come under the state department of health; its electrical codes under the department of labor, and the heating codes under the state fire marshall. There had been no building code.

With a building code added, Baker's division will be the single state regulating authority, under the department of commerce.

The code regulations being drafted, with assistance of the Mobile Home Construction Standards Advisory Committee, are nearly completed and a public hearing will be called in late December at the state office building in Portland, Baker told NORTHWEST TRAILER AND MOBILE HOME NEWS.

"We look for implementation in the early spring," Baker said.

The new codes are based on American National Standards Institute models, A119.1 (mobile homes, adopted by 28 states) and A119.2 (recreational vehicles).

The new codes will apply to all mobile homes and recreational vehicles, "for sale, rent or lease," in Oregon. There are 187 such manufacturers registered with the state, according to Baker, of whom 59 are in the state and 128 out-of-state.

As the division staff is built up, administration calls for insignias of compliance to be placed on all approved mobile homes and recreational vehicles. New models can be approved on the basis of plans and specifications, or by visual inspection of pilot models. Spot checks at manufacturing plants will assure that model lines are in compliance.

The Oregon codes will require an in-plant quality control program, Baker stated and plant managers will be required to submit methods of quality control.

The structural portion of the codes is new to Oregon. Baker said consideration is being given to means of determining compliance of structural materials in three ways: the use of stress graded materials, through the manufacturer's own testing and through testing by an outside independent organization.

Oregon will become a leader in mobile home and recreational vehicle codes. Although the codes will be ANSI A119.1 and ANSI A119.2 substantially, the concept and administration is something else.

The Mobile Home Construction Standards Advisory Committee is a standing committee, representative of the industry, government and the public, whose recommendations will be heard by Hillman Lueddeman, Director of the Department of Commerce.

The committee is playing and will continue to play a major role in formulating the codes and their revisions as required. And, the division feels that mobile homes are mobile homes, not on site constructed homes, requiring entirely different structural requirements.

One of the recommended requirements of the new code has to do with emergency egress, which calls for windows that can be opened in habitable rooms.

Attitude of a regulatory agency is important too. Just by the way of a clue: Baker is considering buying a mobile home for his family.

Meanwhile, back at Portland First Federal. Guy Jaques' idea is that a mobile home, when placed on a permanent site, becomes a piece of real property that is not going to depreciate, provided the site is planned properly.

Therefore Portland Federal's new policy on 20-year loans is this. Twenty-year loans, from 75 to 90 per cent of the value of the home and property, will be made, initially at Heritage Village, an 82-acre development southwest of Portland, planned for 474 home sites. Heritage Village is being developed by the Green Tree Development Company, a wholly-owned subsidiary of Portland Federal. Similar loans are to be extended similar developments, in which the homes are permanently set up.

Twenty-year mortgages with interest rates under nine per cent will enable Oregonians to buy mobile homes more easily than ever before, officials say.

Which brings us to the other 8,648 reasons Oregon is gaining national attention in the housing industry.

American families during September alone, a record month for the industry, spent over $330,000,000 on new mobile homes, not including taxes. Mobile home sales in Oregon during that month were 1,618 units. On a per capita basis, a rate three times the national average.

The gain in Oregon in September 1971, over the same month a year ago was 206 per cent, third highest in the nation, exceeded only by Washington, with a 236 per cent gain, and California with a 222 per cent gain.

A trend is beginning in the state of Oregon. Mobile homes are beginning to take hold as a new way of life, something that the manufacturers, dealers and owners have known all along, and now something that the lenders and governmental officials are taking into consideration.

The CHAIRMAN. Thank you, Mr. Martin.

Our next witness is J. Lanny Wiens, chairman of the board, Mobile Home Dealers National Association.

STATEMENT OF J. LANNY WIENS, CHAIRMAN OF THE BOARD, MOBILE HOME DEALERS NATIONAL ASSOCIATION

Mr. WIENS. Senator, I have a brief statement I would like to read.

The CHAIRMAN. Fine.

Mr. WIENS. My name is Lanny Wiens; I'm from Enid, Okla. I have been a mobile home dealer for 16 years, presently chairman of the board of the Mobile Home Dealers National Association.

I am here to testify on behalf of the Mobile Home Dealers National Association in support of S. 1348, a bill to provide for the establishment of safety standards for mobile homes moved in interstate commerce.

While we support the proposed involvement of the Department of Housing and Urban Development in this area of safety standards, we want to assure the subcommittee that from the dealers' point of view, the mobile home manufacturers have not been remiss in their obligation to the consumer.

Thirty-six States have adopted the American National Standards Institute's A119.1 guidelines which set performance standards for structural design, plumbing, heating, and electrical work. Also, the Mobile Home Manufacturers Association, whose members produce more than 70 percent of the Nation's mobile homes, has made every effort to insist on high safety standards and the honoring of all warranties.

However, the expansion of the industry over the past decade has revealed several weaknesses in present arrangements; notably, lack of reciprocity between the States, varying degrees of enforcement, and varying interpretations of the ANSI code as well as fundamental weaknesses in the code itself.

These weaknesses, which in our opinion are inherent in State systems of regulating commodities moving in interstate commerce, can be resolved only by the development of a single Federal standard.

We also concur in those provisions of the bill which would permit States to enforce mobile home safety standards which are identical to the Federal standards or which concern safety matters not covered by the Federal guidelines.

S. 1348 reflects the most practical approach because it vests responsibility in the Department of Housing and Urban Development, unlike other approaches which would divide jurisdiction between the Department of Transportation and HUD. Mobile homes are housing, a substantial source of low- and moderate-income housing, and HUD is the logical agency to be vested with this responsibility.

I would like now to address my testimony to the amendment proposed by Senator Taft, which would make two changes in the bill.

First, the amendment would require a manufacturer to act "promptly" instead of "within a reasonable time" after the manufacturer has discovered a defect. We believe the need for this change is self-evident.

ONE-YEAR WARRANTY

The Taft amendment would also require the manufacturer to supply purchasers with a 1-year warranty specifying that the mobile home meets the Federal safety standards established by the act. The warranty corrects a major defect in S. 1348—the omission of any direct and timely relief for the consumer who finds that he has a defective mobile home several weeks or months after he has taken possession. The defect may be peculiar to this particular mobile home and may have been overlooked by the dealer who prepared the unit for possession and occupancy by the purchaser.

We recommend approval of the Taft warranty amendment.

USED MOBILE HOMES

Section 108(b) of S. 1348 addresses itself to the subject of used mobile homes. While the bill covers only new mobile homes, this section directs the HUD Secretary to conduct a study and investigation of the adequacy of existing State requirements and procedures applicable to used moble homes and to report to the Congress within 1 year the advisability of legislation for the establishment of uniform Federal mobile home safety standards applicable to all used mobile homes.

While we seriously doubt the practicability of Federal standards for used mobile homes, we find it difficult to oppose direction to HUD to study the matter and report back to the Congress. Should the bill be enacted with section 108(b), we hope to convince the Department that such Federal standards would be impractical, difficult to enforce, and make it very difficult for mobile-home owners to trade up their units, or to sell them and recapture part of their equity.

INTEREST RATES

We strongly recommend that the subcommittee include in its housing bill authority for the HUD Secretary to adjust the interest rate on the title I mobile home sales program to reflect market conditions. The problem of adequacy of FHA rates is not new to this subcommittee. We ask that the power of flexibility which the Secretary has with respect to the regular FHA program be extended to the title I program.

The situation with respect to FHA mobile home sales is particularly inequitable because the Veterans' Administration has no comparable restrictions, and the maximum rate permitted by the VA on mobile home sales is more than 2 percentage points in excess of the FHA ceiling. The administration has recommended this amendment, and I understand it was included in the bill approved last year by this committee.

S. 898—AMENDING FHA SALES PROGRAM

We recommend approval of S. 898 which would amend the FHA mobile homes sales program by including in the insurance extended lenders under the title I program, the cost of acquisition of a lot by the mobile home purchaser and borrower. The additional amount would be $5,000 for an undeveloped lot with a 15-year maturity; and if the acquired lot is suitably developed, the principal amount of the added obligation could be $7,500 with a 15-year maturity.

This amendment to the title I program would make the FHA mobile home sales program comparable to that administered by the Veterans' Administration. This amendment was also included in last year's housing bill which cleared the Senate but was not enacted because of inaction on housing legislation by the House of Representatives.

With respect to the FHA mobile home sales program, we urge an additional change, extension of the maturity on single units to 15 years from the present 12 years, and 20 years for double-wides instead of the present 15.

With respect to single units, we note that the Federal Home Loan Bank Board recently amended its mobile home regulations to permit a maximum 15-year maturity. With respect to double-wides, we believe that a 10-year differential between a conventional home, which has a maturity of 30 years, and a double-wide, which has most of the permanent characteristics of conventionally built housing, is more reasonable than the present 15-year differential.

S. 899—FARMERS HOME ADMINISTRATION

S. 899 would extend the housing programs of the Farmers Home Administration to mobile homes. An identical provision was approved by the committee and included in last year's housing bill.

I am sure that the committee is aware of the substandard housing in rural areas and the great need for lower cost housing in such areas. Surely, this segment of our population should not be denied the benefits of assistance in the purchase of mobile homes, assistance that is accorded the urban areas in which FHA activity predominates.

This concludes my testimony. On behalf of the Mobile Home Dealers National Association, I express my appreciation for this opportunity to testify on these bills affecting mobile homes.

Senator TAFT [presiding]. Thank you very much, Mr. Wiens.

The Chairman had to leave, so I will take over.

Mr. Wiens, what does a dealer do specifically to a unit after he receives it from the manufacturer?

Mr. WIENS. When it is immediately received?

Senator TAFT. And prior to sale.

Mr. WIENS. Prior to sale. When it is immediately received, it is what we call ready for setup, made ready for sale on the lot. It is hooked temporarily to electrical connections to provide lighting for display. The furniture is set up and the unit is cleaned up. When the unit is sold, it is——

Senator TAFT. Is there any actual structural change to any of the units that have become disassembled?

Mr. WIENS. Not normally, with the exception of the furniture. The next step, when the home is sold, it goes through a checkout procedure,

in which the electricity, gas, whether it is LP or natural gas is used, the plumbing and all is checked out and pressured up before delivery to the customer.

Senator TAFT. What do you do to prepare it for the owner after the sale? Do you take some steps then?

Mr. WIENS. That is what I was referring to. Then we pull it up to a checkout stand, completely hook it up to water, electrical connections, gas connections, and check it out.

Senator TAFT. This is at your lot, though?

Mr. WIENS. Right, at the sales lot.

Senator TAFT. But after it is actually delivered somewhere, do you have some further role?

Mr. WIENS. Yes. Then when it is delivered, we hook it up again for the customer, completing all connections and setups and recheck it again there, in case something was missed on the lot, and get it ready for the customer to move in.

Senator TAFT. What do you do with regard to complaints after the customer is in the unit?

Mr. WIENS. Well, depending on the type of complaint, whether we make a work order out on it, turn it over to the service department, and they take care of it. If it is an immediate thing, we go right out, or else we get to it in the next several days.

Senator TAFT. Do the dealers generally do something for a prescribed period?

Mr. WIENS. Yes.

Senator TAFT. Without charge?

Mr. WIENS. Yes; the policy of your company is we feel that anything that is not the fault of the customer, within a reasonable amount of time, we take care of it.

Senator TAFT. What would that be in time?

Mr. WIENS. It depends a lot on the incidence of the complaint. We don't have, as far as our dealership is concerned, we don't have a specified set time.

Senator TAFT. Your contract of sale doesn't provide free service for a certain period of time?

Mr. WIENS. No; we just take care of it on our own word and reputation and formally it may involve anything within a year.

Senator TAFT. Mr. Martin testified earlier that the warranty provision that I have suggested, should be modified to include a warranty by the dealer in addition to a warranty by the manufacturer. Are you in agreement with that, or do you think some specified provisions in the law ought to set out a required warranty from the dealer?

Mr. WIENS. Well, in general, I'm in agreement with it. I think there might be separate provisions for each type of responsibility. But generally, I'm in agreement that the dealer should have responsibility and be held to that.

Senator TAFT. Do you do servicing after the year period is over on a reimbursed basis?

Mr. WIENS. Yes.

Senator TAFT. You actually do service work?

Mr. WIENS. Yes; our shops do insurance repair, any type of service.

Senator TAFT. I don't have any further questions. Thank you very much, Mr. Wiens.

Mr. WIENS. Thank you, sir.

Senator TAFT. The next witnesses are a panel of Dr. James Fosdick, executive secretary to Lt. Gov. Martin Schreiber, of Wisconsin; Mrs. Lynda McDonnell, Center for Auto Safety, Washington, D.C.; and Dr. Margaret Drury of the Senior Research Staff, Urban Institute, Washington, D.C.

Ladies and gentleman, we welcome you. We would be glad to have you start in and give us your statements. I would ask that they be kept relatively brief, as I have another commitment I have to make fairly shortly.

We don't want to cut you off. We welcome any additional information you would care to file.

STATEMENTS OF JAMES S. FOSDICK, EXECUTIVE SECRETARY TO LT. GOV. MARTIN SCHREIBER, OF WISCONSIN; LYNDA McDONNELL, CENTER FOR AUTO SAFETY, WASHINGTON, D.C.; AND MARGARET J. DRURY, SENIOR RESEARCH STAFF, URBAN INSTITUTE, WASHINGTON, D.C.

Ms. MCDONNELL. I am Lynda McDonnell. I am with the Center for Auto Safety, a public interest research group located in Washington, D.C.

The center has been conducting for the past year or so an investigation of the mobile home industry.

I am going to abbreviate my remarks considerably, so I would like to file my full testimony in the record before I begin.

There are three major parts of Senator Brock's bill that we are very concerned about. First we would like to see the scope of the bill extended to explicitly include construction.

It seems that the Senators' intent is to include the quality of construction in his bill. The way it is presently written he bill would seem to include construction quality as well as safety. But we think it is important for definitional reasons and in case of future court tests that construction be explicitly included in the bill.

As regards construction standards I have to disagree with some of the testimony that has come before today about the adequacy of the ANSI code.

We have not done an indepth engineering analysis of the code because we do not have that sort of technical expertise on our staff. But there are several parts of the code which are obviously inadequate. Let me give you an example. The code in many parts is very ambiguous, and we think that makes it a weak code in many respects.

There is one requirement that the interior partitions in a mobile home be "of adequate strength." That is all the code requires. Well, in mobile homes we visited, this "adequate strength" consists of putting a 2- by 2-inch stud behind a piece of plywood, maybe every 2 feet or so. We had one Illinois dealer tell us that he discourages his prospective customers from leaning agaisnt these walls in model units for fear they will crash into the next room.

A more serious example of the inadequacy of the present code are its fire safety requirements. There is a flame spread requirement for interior materials in the present code. But in most of the mobile homes

made today the interior material used for interior walls is thin, five-thirty seconds of an inch plywood paneling.

We do not consider this material satisfactory in terms of safety.

The National Commission on Fire Prevention and Control recently released a report which stated explicitly that mobile homes are the most flammable, the fastest burning of all residences.

If you take this as an indication of the quality of the ANSI code you can understand why we would object to adopting that code as a Federal standard.

There are some improvements, some great improvements in mobile home construction that the ANSI committee has made in recent years. It recently passed an amendment that will double the amount of insulation required in mobile homes and that is a significant improvement. But we would certainly object to taking this code and adopting it in toto and making it a national code.

My written testimony expands on how we feel the Secretary of HUD should consult sources other than ANSI and initiate original research in his development of a national mobile home construction code.

In addition to having the bill's scope extended, we would like to have the bill's defect provisions strengthened.

Senator Taft, we would support the 1-year warranty amendment you have proposed. There are mandatory 1-year warranties now required by the State of California and the State of Wisconsin.

Many of the major mobile home manufacturers are also supplying 1-year guarantees with their products,

But in regard to safety defects in a mobile home, things that would actually endanger the life and safety of its occupants, we feel there should be no time limit on the guarantee that the home will be safe to live in.

We think that as long as the home is habitable, as long as people are living in the home, they should be assured that while their paneling and furniture may wear, they will have a safe place to live.

So in that respect we would support a mandatory 1-year warranty covering all parts of the home, but would extend the warranty in respect to safety-related aspects of the home, having an unlimited warranty on the safety features of the mobile home.

We also agree with the gentlemen from North Carolina that there are problems with the section of the bill which deals with State enforcement plans.

We think there are more specific criteria which should be included in the bill to make sure that it provides for strong enforcement, inspections, and review of blueprints before the homes go into production.

Those added criteria are also outlined in my written testimony.

I would like to point out a few potential problems in having third party agencies conduct inspections. In States where third-party inspection is used, the agencies are usually chosen directly by the manufacturers.

There are three major testing laboratories that do this sort of inspection and the manufacturer has the option, in the States that I am familiar with, to choose which of those agencies he wants to inspect his plant.

There is one official of U.S. Testing Laboratory who told us his company's contract with one manufacturer was canceled because the manufacturer told him he could get by with using cheaper materials by hiring another third-party agency.

That is not the sort of uniform quality of inspection that this bill mandates.

I think the bill must provide for that sort of abuse.

If the third party is being paid by the manufacturer you are going to have to cope with the third party behaving as though he is an employee of the manufacturer, rather than serving the consumers and the State agency.

So those in brief are the comments I would like to make.

[The statement and additional information follow:]

STATEMENT OF MS. LYNDA MCDONNELL OF THE CENTER FOR AUTO SAFETY

Mr. Chairman, I am Lynda McDonnell, a member of the staff of the Center for Auto Safety. The Center is a non-profit public interest research group located in Washington, D.C. We are concerned with safety problems in the automobile and related industries.

For the past year, the Center has been engaged in an intensive study of the mobile home industry which will be published this fall. I have served as project director for that study. Among the subjects we have investigated are mobile home construction, safety, quality, insurance, financing and park living. We have culled through hundreds of letters from unhappy mobile home owners; we have talked with state officials, mobile home manufacturers, suppliers, dealers, insurance companies and bankers. Our research has uncovered a rat's nest of problems in the mobile home industry. Among these are shoddy workmanship, cheap materials, high financing costs and extensive losses of life and property due to fire and wind.

We thank the committee for inviting us to testify here today. We applaud Senator Brock's interest in the mobile home problem and his desire to enact legislation which would call a halt to many of the consumer abuses now prevalent. The proposed bill before us today takes a significant step toward assuring the mobile home owner that his home will be a safe place to live.

But there are several areas addressed by the bill which we feel do not go far enough in protecting the consumer from unsafe and poor quality mobile homes. Specifically, we feel the bill's scope should be expanded to include construction as well as safety. We would also like the defect provisions to be strengthened and the state enforcement system further defined. I will elaborate on why we feel these changes should be made and how this could be done.

I. EXPANDING THE BILL'S SCOPE TO INCLUDE CONSTRUCTION

First, we feel that the scope of Senator Brock's bill should be extended to explicitly include construction quality as well as safety. As it is now written the bill ties safety directly to accidents, injuries and details caused by defective components in a mobile home. But in housing, the durability, quality and safety of construction are inextricably combined. Most of the more than 1,000 consumer letters we have received do not deal with serious safety defects which resulted in injuries or deaths. Instead the overwhelming majority deal with construction complaints ranging in severity from scratched panelling to walls separating from roofs. A survey of mobile home owners conducted by Owens-Corning Fiberglas Corporation indicates how prevalent mobile home construction defects are. In that survey, 51 percent of the mobile home owners interviewed said they had construction-related problems immediately after moving into their homes.

While construction defects may not often result in injuries or deaths, they can result in extensive economic loss to the mobile home owner.

For example, the construction defects we hear about most often are leaks. Leaks at first appear to be insignificant but if they go undiscovered or unrepaired, delayed by buck-passing between manufacturers and dealers who both deny responsibility for repairing the home, simple leaks can cause hundreds or even

thousands of dollars worth of damage. Warped panelling, rotting floors and wet insulation which must be removed and replaced are frequently the end results of mobile home leaks. Senator Brock's bill seems to have the intention of reducing such property losses. But safety as it is defined in the bill is too narrow a purview to include most common mobile home defects. For these reasons we urge the committee to amend the bill to include construction and change the bill's title to "The Mobile Home Construction and Safety Act of 1973."

We are delighted that Senator Brock's bill provides for implementation of standards within six months of the bill's enactment. But we are concerned that this schedule for implementation will result in too heavy a reliance by the Secretary on the industry's expertise. The mobile home industry has done significant work in developing a construction code for mobile homes and that work should not be wasted. But neither should time pressures force the Secretary to be completely dependent on the industry's knowledge and experience. Senator Brock's bill has a strong built-in bias favoring adoption of a widely accepted mobile home construction standard written by an industry-dominated committee known as the American National Standards Institute's Committee on Mobile Homes and Recreational Vehicles. The six month lead time before implementation of the federal standard would give the Secretary little time to conduct original research. Senator Brock's bill frequently singles out the ANSI committee for special attention, requiring that the Secretary consult with the ANSI committee before issuing his standards. We feel this directive gives far too much importance to what is essentially a lethargic industry-dominated committee and the standards this committee has written.

The ANSI standards, though a vast improvement over the days when the wild and woolly mobile home industry was completely unregulated, are limited in scope and often weak and ambiguous. The ANSI committee has depended almost exclusively on the mobile home industry's expertise in writing its standards. The present committee is heavily dominated by persons having close affiliations with and vested interests in the mobile home industry. At a meeting of the ANSI committee on mobile homes in January 1973, fully 75 percent of those in attendance were representatives of mobile home manufacturers, suppliers, industry associations, insurance companies and private inspection agencies, all having a hand in the mobile home pot. It would be unwise for the Secretary to rely too heavily on the expertise of this committee, instead of consulting other sources and initiating original research.

Let me give you an example of how the industry-oriented ANSI committee has fai'ed to make its code as stringent as is needed. Many of the standards within the present ANSI code are ambiguous enough to allow manufacturers to virtually ignore them. For example, the code requires that interior partitions between rooms be "of adequate strength." In actuality, many of the walls which supposedly meet this requirement are simply pieces of plywood supported by an occasional two by two inch wood stud. One Illinois dealer told us he discourages prospective customers from leaning too heavily against the walls in display models for fear they'll go crashing into the next room. A more serious example of the ANSI committee's lethargy are the code's weak fire safety provisions which allow manufacturers to build their interiors almost completely of cheap thin plywood panelling.

There are many persons in addition to ANSI committee members whom the Secretary should consult in developing federal standards. Canada and the state of California have both developed mobile home codes which are stiffer in many respects than the ANSI code. Many academicians, fire protection experts and state and local government officials are familiar with mobile homes, their construction and various safety and non-safety deficiencies. The bill's frequent references to ANSI discriminate against other important sources of information which are not mentioned by name in the bill.

We might note that if the Secretary simply adopts the ANSI standards, he will be effecting little change in mobile home construction, safety and quality. More than sixty percent of the mobile homes now produced supposedly meet the ANSI standards because the manufacturers who produce them are required as members of the Mobile Homes Manufacturers Association to meet these construction requirements. And since 36 states also require mobile home manufacturers who sell mobile homes in those states to adhere to the ANSI code, far more than 60 percent of the mobile homes now produced already supposedly meet the ANSI code. Yet there is still a surfeit of poor quality mobile homes being marketed and a need for federal construction standards.

We do not suggest that implementation of the federal standards be postponed beyond the six month period Senator Brock's bill specifies. But we do recommend that to minimize the bias toward the ANSI standards, all specific references to this body be struck from the bill. We also suggest that the Secretary be required to submit to Congress one year from the bill's enactment a report evaluating the current federal standards, their strengths and deficiencies, and outlining a program of amendments, new standards, research and testing to be implemented during the following year.

We also suggest eliminating the section of the bill which would allow proposed standards to be vetoed solely because they would increase the cost of the mobile home. This clause could easily precipitate frequent court battles from mobile home manufacturers who are notoriously preoccupied with keeping costs down, whether or not safety and quality suffer in the bargain. Mobile home manufacturers are well aware that the wider the gap between the price of mobile homes and the price of conventional homes, the better their business will be. Because of this, mobile home manufacturers are interested in keeping their homes cheap and they are not likely to favor standards which would significantly increase the retail price of their products. If cost alone is allowed to veto proposed construction changes, it is doubtful that the quality and safety of mobile homes will improve substantially with federal standards.

But there is a minimum acceptable level of safety and quality which homes must meet. Many of the mobile homes we have seen and heard about from consumers fall short of that minimum level. If it is necessary to make extensive construction changes (with concomitant price increases) to enable mobile homes to reach that level, then the bill should allow such increases in cost. We would like to see the price consideration eliminated from the bill. At the very least, cost increases should be considered in the light of the benefits they would bring. This change would allow the Secretary to enact standards which would increase the cost of mobile homes as long as the benefits to consumers from these changes would equal or exceed the increased costs.

II. STRENGTHEN DEFECT AND RECALL PROVISIONS

The second section of the bill which should be strengthened is that dealing with defects and recalls. As presently written, the bill lacks a provision for mandatory recall, whereby the Secretary, after determining that there was a defect in a particular home, could order the manufacturer to repair or buy back defective homes. Ironically enough, the bill gives dealers but not consumers this basic protection. It states that if a *dealer* has a defective mobile home on his sales lot, the manufacturer must either buy back the defective home or pay for necessary repairs. On the other hand, if a *consumer* owns the defective home, the bill requires only that the manufacturer inform the consumer via personal letter that his mobile home is defective. The manufacturer is not obligated to buy back or repair free of charge a consumer's defective home. In the same way, the bill grants a dealer who owns a defective mobile home the right to sue a manufacturer to force him to buy back or repair the unit. The bill does not grant the same right to a consumer. This discrepancy unfairly discriminates against the consumer.

We suggest that the bill be amended to give the consumer the same rights and protection it gives the dealer. The Secretary should be empowered to order a manufacturer to buy back defective mobile homes from consumers or repair the defects at the home's site at no cost to consumers. If the manufacturer is unable or unwilling to repair the defect within a specified period of time, the consumer should be allowed to choose between waiting for repairs, or having the manufacturer buy back the home. The manufacturer should be responsible for any expenses the consumer incurs if he must temporarily move from his home because of the defect. The bill should give both the consumer and the Secretary the right to sue manufacturers who refuse to repurchase or repair defective homes.

We also suggest that the bill explicitly state that a mobile home can be recalled for safety related defects for the home's entire useful life. Non-safety defects should be covered for five years after the home's original retail sale. Such a delineation would avoid confusion once the bill is enacted.

III. FURTHER DEFINE REQUIREMENTS FOR STATE ENFORCEMENT PROGRAMS

Finally, we support the bill's scheme for state enforcement of the standards. State enforcement will surely be more effective and easier to implement than would a federal program. However, the bill should include more detailed require-

ments for state enforcement plans. Based on our knowledge of existing state enforcement programs, we recommend that the bill require all state plans submitted to the Secretary include the following:

1. Procedures for approval by state officials of mobile home construction plans before such plans are implemented and a state requirement that manufacturers produce only units which conform to an approved plan;

2. Minimum standards for quality control programs in mobile home manufacturing plants;

3. Minimum ratio of inspectors to the number of mobile homes produced and sold in the state. This ratio should equal or exceed a federally established minimum;

4. A state goal of inspecting each unit produced in the state at some time during its construction;

5. Minimum qualifications for inspectors.

The bill should also further define what the state's powers and duties are. For example, the bill does not specify whether the state can levy fines, suspend production or order manufacturers to make repairs. Neither does the bill describe how states are to report code violations to the Secretary.

We also feel that the Secretary should not be forced to surrender his jurisdiction over the enforcement of the standards once the state plan passes the three-year test period. As we read the bill, once the Secretary approves a state enforcement plan, he must go through an elaborate procedure to withdraw approval of the state plan before he can intervene in the state enforcement procedures. We feel that the Secretary should instead retain the right to proceed against a mobile home manufacturer located in a state with a federally approved state enforcement plan without having to dismantle the entire state plan to do so.

Also in respect to state codes and enforcement, we feel that the federal standards should be viewed as a nationwide minimum. All states should be required to meet these minimum standards but individual states should be allowed to exceed these standards if they wish. Climatic differences throughout the country require this. The state of Alaska, for example, adopted the ANSI code but inserted tougher requirements for roof and sidewall strength because the state's harsh weather demanded this. I might add that we receive far more consumer complaints about inadequate insulation, poor heating and exorbitant heating bills from residents of northern states than elsewhere in the country. Once it meets the minimum requirements, a state should be allowed to compensate for local weather conditions by exceeding the federal standards.

I would also like to point out that were it not for the states taking the initiative in setting up mobile home construction standards (California first implemented standards in 1958) we would probably not have the present mobile home construction codes, notably the ANSI code. States should retain the right to exceed the federal code. Hopefully their initiatives in formulating more stringent standards will prod federal standard-makers to do likewise.

In closing, I would like to reiterate that we believe Senator Brock's bill, if passed and enacted, would provide a great service to the consumer in assuring him that his mobile home will at least be constructed to a minimum level of safety. But the bill could be significantly strengthened in the consumer's behalf if the following revisions were made: the bill's scope was expanded to include construction quality along with safety; the bill's recall and defect provisions were strengthened to make manufacturers responsible for buying back or repairing free of charge defective homes belonging to consumers; and finally, the bill's criteria for state enforcement programs and its delineation of federal and state powers were further defined.

Appendix To Accompany Testimony of Lynda McDonnell

The following appendix will elaborate on our remarks on the Senate bill, S. 1348, offered in testimony before the Senate Subcommittee on Housing and Urban Affairs. It will also briefly outline significant problem areas for mobile home owners which would be appropriate for federal control and are not presently included in the Brock bill.

We are concerned that some of the bill's limiting language will prove difficult to define and could precipitate challenges to safety standards by mobile home manufacturers. Specifically, we feel the phrases "substantial increase in the retail price of a mobile home" and "practical Federal safety standards for mobile

homes"—both used in the preamble to the legislation—should be struck. We also feel that "defect" should not be narrowly defined as referring only to "substantial defects." The definition of defect should be clarified; for example, it is unclear whether defects in furniture and appliances, which are normally supplied with a mobile home, are included in this definition.

We recommend that a warranty clause be added to the bill and that the definition of "defect" be adjusted so as to be appropriate to the warranty clause. The warranty provision should specify that manufacturers must warrant the safety features of a mobile home for the home's entire usable life. Non-safety features having to do with basic construction should be warranted for five years. The entire mobile home—furniture, appliances, rugs, panelling, construction and safety—would be warranted for one year. And any such warranty should be transferable to future owners of the home.

California and Wisconsin already require that all mobile homes sold in those states be supplied with one year warranties on all parts of the home. Many of the largest mobile home manufacturers have extended their warranties from 90 day time periods to one full year. It is hardly too much for a consumer to expect that all the components of a mobile home will work satisfactorily for at least one year. A mobile home owner should also have assurance that though certain parts of his home will wear out, it will be safe as long as it is habitable. A federal warranty provision should include minimum standards for mobile home warranties and state that any mobile home not supplied with such a warranty would not be permitted into interstate commerce. A federal office to issue minimum warranty standards and monitor the performance of manufacturers in honoring their warranties should also be established by the bill.

Such a provision is necessary since many consumers have complained to us that their warranties are virtually worthless. Often neither dealers nor manufacturers will make necessary repairs under warranty. The Federal Trade Commission is now preparing a complaint against several large mobile home manufacturers, faulting them for their failure to honor their warranties. Many mobile home warranties we have seen contain onerous clauses which would place a hardship on a consumer who sought warranty service. For example, some warranties state that the consumer must return his mobile home to the factory where it was produced in order to obtain service.

Although we have never heard of such a clause being enforced, these clauses are potentially tools the manufacturer could use to make it difficult for the consumer to obtain service. Federal legislation could appropriately set minimum standards for mobile home warranties.

To digress slightly for a moment, we would like to discuss "set-up" and recommend that manufacturers be required to guarantee not only the safety and construction quality of their homes, but also a satisfactory initial set-up. Set-up consists of jacking up a mobile home to place piles of cement blocks under the home as a support and then levelling the home on those supports. If a mobile home is not properly supported or is not level on these blocks, serious structural problems can develop. These structural problems can include walls separating from roofs and floors, cabinets separating from walls, doors and windows not closing tightly, bowing walls, leaks, sagging floors and backup of sewage in pipes. Set-up is usually performed by the dealer who sells the home and the charge for set-up is included in the sales price of the home.

Because manufacturers do not actually perform the set-up of the homes they manufacture, their warranties do not guarantee that the procedure will be carried out correctly by the dealer. Oftentimes, dealers and manufacturers become embroiled in lengthy debates over who is responsible for making a particular repair. A manufacturer will claim that a defect developed because of poor set-up; the dealer will claim that the defect developed because of poor set-up; the dealer will claim that the defect originated in the factory. The consumer is caught in the middle and may wait for months while the dealer and manufacturer negotiate about who will make the repair. Many consumers simply give up in frustration and repair the home themselves or hire servicemen to make repairs. To minimize this sort of dealer-manufacturer squabbling, we propose that the bill specify that the manufacturer is responsible for all structural defects whether they were caused by faulty set-up or not. We would require the manufacturer to guarantee that the home will be set-up correctly by his dealer-agent or the manufacturer himself is liable for damages if it is not. We see no other way to force manufacturers to exercise more control over dealers and thereby eliminate the rampant dealer-manufacturer runaound.

The "buckpassing" between dealers and manufacturers is a chronic problem

in the mobile home industry. Manufacturers have consistently refused to organize and control their dealer networks by demanding servicing capability and issuing formal franchise agreements. They eschew responsibility for any of their dealers actions. An attorney for Schult Mobile Home Corporation expressed this lack of control over dealers in a letter to an attorney representing a mobile home owner whose home's roof had collapsed: "Please be advised that neither Northland Homes nor any other dealer for Schult Mobile Home Corporatin is an agent of Schult. Mobile home dealers are independent contractors and not subject to the direction or control of the manufacturer. Most dealers sell mobile homes manufactured by at least several different manufacturers. The dealer, not the manufacturer, is the dominant link in the chain of distribution. Any statements made by the dealer, or by his salesmen, would be strictly his and not attributable to the manufacturer." It is obvious from this statement that any federal legislation must force manufacturers to assume more responsibility for the actions of their dealer-agents as well.

Returning to the discussion of criteria used in prescribing standards, we would recommend that 103(f) 4 and 5 be struck from the legislation because they are ambiguous and irrevelant. Section 103(f)3 is sufficient in stating that any proposed standards must be reasonable, practicable and appropriate. The questions of whether the proposed standards place a financial burden on manufacturers or will contribute to an increase of the mobile home's retail price are irrelevant. Such considerations if given too much weight, could easily hinder significant upgrading of mobile home construction quality and safety, regardless of what the benefits of such improvements would be.

We would also encourage the Senator to further define "representatives of the general public" as used in 104(a) to clarify that these council members cannot have any affiliations with the mobile home industry, as stock holders, employees, etc.

In regard to the research and testing functions of the federal bureau, we would recommend that even after state enforcement plans are functioning independently, the federal bureau retain control over research and testing programs. This would avoid having the states overlap in their research and testing programs. Since it would leave all research monies in a single pool instead of dividing them among 50 states, it is probable that more extensive and comprehensive research programs could be undertaken.

In section 108(b)1, we applaud the provision for standards for used mobile homes but feel the lead time before implementation could be substantially decreased. Since the standards for used mobile homes will not be as all-encompassing as those for new mobile homes, it should take less time, rather than more to prepare the standards for used mobile homes. We suggest that the bill require the Secretary to report to Congress within 180 days of the bill's enactment on his study of state standards and inspection procedures applicable to used mobile homes as well as recommendations for additional federal legislation he may need to carry out the mandate to establish uniform standards for used mobile homes. Within 180 days of that report, the Secretary shall establish uniform Federal mobile home safety standards applicable to all used mobile homes.

We feel the maximum civil penalties set forth in section 109(a) are far too low. The top four mobile home manufacturers had sales of more than $200,000,000 during 1972 and a full maximum fine of $400,000 would little penalize corporations of this size. Because the mobile home industry includes both very small manufacturers and giant corporations we feel the maximum fine should be set at $1,000,000 in order to give the Secretary leeway to substantially penalize the larger mobile home manufacturers should their violations of the standards be extremely serious. We would also recommend raising the maximum penalty per violation to $3,000.

We feel that consumers should have the right to sue manufacturers for noncompliance with the federal standards. They should also be assured that they will be able to recover damages should the court award them. The state of Washington encountered difficulties when consumers sued dealers for repairs and won their cases, only to find that the dealers had declared bankruptcy and were unable to pay damages. The state now requires each mobile home dealer in the state to carry a $10,000 bond. A similar requirement might be made of mobile home manufacturers. There is still great fluctuation in the mobile home industry; manufacturers are continually entering and leaving the industry. For this reason, it may be appropriate to require that manufacturers carry bonds totalling 25 percent of the previous year's gross income.

Finally, we would like to briefly discuss the subjects of financing and insurance which the bill does not presently deal with. Most purchasers of mobile homes must finance their homes with long-term, high interest consumer credit loans comparable to those used to finance purchases of automobiles. Paying an average annual percentage rate of 12.6, most purchasers of mobile homes are compelled to finance through dealers rather than directly from banks. As opposed to an automobile loan where the high interest rates are paid on loans of $2,000 to $3,500 for terms of two to three years, mobile homes require loans of up to $10,000 running for average terms of seven to 10 years. Yet mobile home buyers are forced to pay the same high interest rates charged on smaller, shorter term automobile loans. Very rarely can a consumer obtain a conventional mortgage at terms of 8 percent or so for the purchase of a mobile home. Neither can most consumers finance their homes directly through banks, principally because banks are reluctant to grant these direct loans to consumers when it is far simpler and more profitable for the bank to finance through dealers. Many banks require that in order to obtain a direct bank loan, a consumer pay one-third of the price of the home as a down payment and pay off the loan within five years. Most middle income mobile home buyers cannot afford such terms.

Because a mobile home is considered personal rather than real property, repossession of a mobile home, should the owner default on his loan, is far easier than a foreclosure on a conventionally mortgaged site-built home.

Under the Uniform Commercial Code, all the lender needs to repossess the mobile home is for the debtor to be between 10 and 20 days late in his payment. The lender must also be able to repossess the home without causing a breach of the peace. Mr. and Mrs. Richard Walters of Morrice, Michigan, stopped payments on their mobile home in hopes that the bank would use its influence to force the dealer to make long-awaited repairs. Instead the bank decided to repossess the home. "It wasn't long after that (failure to make payment) that they come out and served papers on me, and made me move out on the spot," reported Mrs. Walters.

By way of contrast, if the Walters had lived in a conventional home and had a mortgage loan, the bank would have had to give the family a 30 to 60 day grace period in which to make up missed payments. If the payments were not made within that time, the bank would have had to go to court to file an order of foreclosure against the home owner. Even if the court granted permission for a foreclosure, the bank would still be required to give the owner a "period of redemption," sometimes running as long as two years.

The bank cannot sell the home during the redemption period and the home owner is given that time to accumulate enough money to pay off his loan and reclaim his home. No such safeguards protect the mobile home owner who can be thrown out of his home if he is but a few weeks late in his payments.

Mobile home owners who have their homes repossessed frequently find that their troubles do not end there. Because of mobile homes' rapid economic depreciation (estimated at 50 percent in five years) the price the home brings in a public auction after it is repossed may not be enough to pay off the balance of the loan. Should this occur, the bank can go to court and request a deficiency judgment against the home owner. If the court agrees, the mobile home owner may well find himself without a home, still owing the bank several thousand dollars.

The federal government established a program in 1969 for insuring mobile home loans under the FHA. The program provides that mobile home loans have maximum terms of $10,000 for 12 years at 7.97 percent simple interest for singlewides and $13,000 for 15 years at 7.64 percent simple interest for doublewides. But few banks have been willing to grant loans under the FHA program. As of June 1972, of the $10 billion outstanding in mobile home loans, only $34 million were FHA insured. Hopefully, federal legislation could include a provision to attract more lenders into granting FHA-insured mobile home loans.

An additional expense frequently added into the financing contract is a long-term insurance premium costing several hundred dollars. Dealers frequently double as insurance agents and by one estimate depend on insurance commissions for five percent of their total income (financing income accounts for another 15 percent).

Frequently, seven-year physical damage policies and five year credit-life insurance policies will be tacked onto a consumer's financing contract and he is forced to finance not only the purchase of the mobile home but purchase of the insurance as well, both at high cost add-on rates. In many cases, the consumer ends up paying 10 years worth of interest on a loan for an insurance

policy which lasts for only 7 years. Consumers are pressured by dealers who assure them that the dealer will "take care of every thing" by tacking insurance premiums onto the financing contracts. We have also heard consumers told mistakenly that banks "require" mobile home buyer to purchase long-term physical damage policies. Thirty-five percent of the physical damage policies, (virtually all the policies sold by dealer-agents) sold by the Foremost Insurance Co., the largest insurer of mobile homes, are those long-term policies. The state of Michigan's Insurance Bureau is presently attempting to limit the maximum term for mobile home physical damage insurance policies to three years in order to reduce the amount of interest a consumer must pay in financing his policy.

Finally, we feel the bill must further clarify the state and federal powers granted by the bill. It does not presently clearly detail whether state officials are empowered to level fines or other penalties against manufacturers not in compliance with the federal standards. Since the production of mobile homes is far more localized than the production of automobiles (mobile homes are usually shipped no more than 250 miles from the plant to the dealer) defects are likely to be extremely localized and state officials should be empowered to use some sanctions against a manufacturer who violates the standards through poor workmanship, design or materials in one plant.

DEPARTMENT OF LAW,
159 STATE CAPITOL BUILDING,
Phoenix, Ariz., December 13, 1972.

MS. LYNDA. MCDONNELL,
Director, Mobile Home Task Force,
Center for Auto Safety,
Washington, D.C.

DEAR MS. MCDONNELL: I regret the obviously extended delay in responding to your inquiry of November 13, 1972 concerning the problems of Mobile Home sales in the State of Arizona and the statutes and ordinances which deal with the problem. In a sense, that delay is indicative of our dilemma. This office has two staff attorneys who are responsible for all consumer complaint handling and litigation on consumer matters within the state of Arizona. This is obviously an overwhelming task. We receive an incredible number of requests for information such as yours, and regretably, are unable to take time from our primary responsibility to do the requisite research for response.

The only information that I can provide you at this time is simply to state that mobile homes are and for some time in the past have been a substantial problem in the state of Arizona. It has been necessary for us to litigate the problem in the past and, unfortunately, it would appear that yet further legal action will be necessary before this industry adequately assumes its responsibilities to the consuming public. Fundamentally the suits are based upon misrepresentation concerning the quality and characteristics of mobile homes at the time of sale and the unwillingness of the manufacturers and/or sales organizations to undertake their warranty responsibilities in good faith.

I realize this is substantially more abbreviated than the information you requested. However, I am sure that most of that detail can be accumulated by reference to the Arizona Revised Statutes and the Compendium of Arizona Ordinances.

Very truly yours,

GARY K. NELSON,
Attorney General.
JACK MCCORMICK,
Assistant Attorney General.

STATE OF NORTH CAROLINA,
DEPARTMENT OF JUSTICE,
Raleigh, N.C., December 6, 1972.

MS. LYNDA MCDONNELL,
Director, Mobile Home Task Force,
Center for Auto Safety,
Washington, D.C.

DEAR MS. MCDONNELL: Your inquiry about the mobile home industry in North Carolina has been forwarded to several attorneys on our staff. I am responding to

some of your questions, and I am certain that you will hear, or have heard, from others about areas of interest to them.

When the Attorney General established the Consumer Protection Division in this office in 1969, there was no other State agency which had the authority or responsibility for investigating general consumer complaints. The response we have received from the public has continued to grow and to improve. However, there are many complaints about consumer products that never come to our attention. In pursuing your inquiry, you may wish to communicate with the five Better Business Bureaus located in North Carolina, and with the North Carolina Manufactured Housing Institute, Lawyers Building, Raleigh, North Carolina 27601.

We receive many complaints from consumers about their problems. A large number are received from owners of mobile homes who are dissatisfied with the quality and with their ability to obtain repair service. Such complaints are undoubtedly a significant part of our work load.

We have not been involved in any litigation involving mobile home consumer complaints. Those complaints we receive have been forwarded to dealers and manufacturers for their attention. We have detected no consistent pattern of misrepresentation or poor quality which would indicate the possibility of action under our law which prohibits unfair and deceptive trade practices (North Carolina General Statute § 75–1.1). We have found that most manufacturers are quite willing to send an investigator to determine the validity of complaints we receive, and to make appropriate repairs. We have found that most complaints are justified. A large number have resulted from leaks in roofs, around windows, and around doors. Much of the inexpensive furniture which comes with the unit is lacking in durability, and many complaints have resulted from this essential feature of the merchandise.

The financing of mobile homes is covered by our Retail Installment Sales Act (Chapter 25A). When this legislation was originally introduced, the annual percentage rates were lower, and were raised as a result of lobbying efforts of the mobile home industry. Most mobile home retail installment sales contracts involve the financing of an amount in excess of $5000, and an annual percentage rate of 14 percent may be charged. However, if a security interest is taken in real property, the maximum rate is 12 percent (North Carolina General Statute § 25A–15).

We have been unable to correlate complaints about mobile homes with the recent changes in manufacturing standards adopted by most manufacturers selling mobile homes in our State. Beginning in 1969, as a result of legislative action, many mobile homes began to be produced under the supervisions of Underwriters Laboratories, and other independent testing agencies. That legislation was strengthened in 1971, and now all those sold in North Carolina presumably are in compliance with standards established by our Building Code Council. I believe that complaints regarding these units will not be as great, or involve problems as severe as those experienced with units produced earlier. They are stronger and considerably safer from fire hazards.

If we can be of any further assistance to you, please let us know.

Yours very truly,

ROBERT MORGAN,
Attorney General.
EUGENE HAFER,
Assistant Attorney General.

STATE OF MONTANA,
OFFICE OF THE ATTORNEY GENERAL,
Helena, Mont., December 11, 1972.

MS. LYNDA MCDONNELL,
Director, Mobile Home Task Force,
Center for Auto Safety, Washington, D.C.

DEAR MS. MCDONNELL: I am in receipt of your letter requesting information concerning Montana law relative to the mobile home industry.

The state of Montana has no state-operated consumer protection agency. The majority of complaints concerning mobile home operation and sales are directed to this office. Such complaints do comprise a significant portion of our workload. However, the state of Montana is not currently involved in any litigation concerning mobile home consumer complaints.

In 1971 the state legislature enacted legislation to provide for uniform construction standards in the mobile home industry. This law is currently codified in Title 69, chapter 21, Revised Codes of Montana, 1947, a copy of which is en-

closed for your information. Pursuant to the legislative directive in section 69–2122, R.C.M. 1947, the state building code council in December, 1971, adopted the standard for mobile homes, A119.1–1971, published by the American National Standards Institute.

Statutes relating to the taxation of mobile homes are contained in Title 84, chapter 66, R.C.M. 1947. Copies of the pertinent statutes in this regard are also enclosed for your information. Further information relative to mobile home operations in Montana may be obtained by contacting Mr. John Hale, Chief, Building Standards Bureau, Department of Law Enforcement and Public Safety, LaLonde Building, Helena, Montana 59601.

I hope the above information is of assistance to you.

Very truly yours,

ROBERT L. WOODAHL,
Attorney General.
JOHN W. NORTHEY,
Chief Deputy Attorney General.

STATE OF KANSAS,
OFFICE OF THE ATTORNEY GENERAL,
Topeka, Kans., November 27, 1972.

MS. LYNDA MCDONNELL,
Director, Mobile Home Task Force,
Center for Auto Safety, Washington, D.C.

DEAR MS. MCDONNELL: Thank you for your letter of November 13, 1972, regarding your research into the Mobile Home industry. I am currently assigning two of our legal iterns to prepare a report and to hopefully answer all the questions you raised in your letter.

The manufacturing, sale, transportation, site location, taxation, zoning, etc., etc. of mobile homes is becoming an uncontrollable problem within the State of Kansas. In your letter you touched upon some of the severe problems but I hope we can bring to your attention, information showing that the consumer is at the mercy of manufacturers, sales representatives, and mobile home park owners because of the lack of effective and meaningful legislation in this area.

It will take approximately thirty days to have this report prepared but I can assure you that it will get top priority treatment by this office because of the severity of this problem.

If we can be of further assistance, please write.

Very truly yours,

VERN MILLER,
Attorney General.
JEROLD V. FENNELL,
Assistant Attorney General.

BETHEL, CONN., *September 9, 1970.*

MR. RALPH NADER,
Winsted, Conn.

DEAR MR. NADER: I am writing to you in hopes that perhaps in some manner or somehow you may be able to help me. In the event that you cannot, then whatever you can do regarding the mobile home racket in the State of Connecticut, will prevent some other consumer from being swindled and subjected to indignities and injustices that I have been in the past.

I purchased an unfurnished mobile home from a Danbury dealer on July 27, 1967 for $6500. This coach was used by the dealer as his office. He was given a down payment of $2933.50, including sales tax.

I later learned that a coach used as an office, demonstrator, etc. is classified as "used." The coach was sold to me as a new one.

I made a complaint to the Danbury Chamber of Commerce. A very superficial investigation was made and the investigator asked me why the hell I bought it and stated I should have looked elsewhere. I also wrote a letter of complaint to the Connecticut Consumer Protection Division. I was advised by the Division to obtain the services of an attorney because I would need one. The investigation was also a very superficial one.

On January 10, 1968, I was served with an eviction notice and charged with being a general nuisance. This type of charge constitutes defamation of character since it is untrue and was used to removed me from the premises because I reported the park owner-dealer for having sold me a used coach for a new one.

The Danburg Community Action recommended an attorney to handle the eviction problem. He advised me to write a letter of complaint to the Bureau of Motor Vehicles, which I did. The Bureau, at the end of January, 1968, requested copies of the title application, purchase order, and invoice, none of which I received at the time of purchase. On February 8, 1968, the attorney requested that I sign the above three papers. I refused to sign the purchase order because it contained false information and statements. At that time, the attorney advised me that he kept his mouth shut where the Bureau of Motor Vehicles was concerned and did not want to get involved with them. I would also like to add that all the papers were pre-dated for July, 1967.

At the end of February in 1968, the attorney advised me that I would have to move from the dealer's premises or he would remove my coach from his property. The Community Action and I had looked in New York State as well as Connecticut, but no space was available for the coach. (It is impossible to obtain any space in any of the parks unless one purchases a coach from the park owners/dealers. The owners of parks who do not sell coaches reserve the spaces for for dealers who do not own parks.) My attorney informed me he could do nothing for me because my case was different from apartments and houses. When I ased him where he expected me to put my coach, he said he didn't care where I put it, but to get it the hell off the dealer's property. Even if I had found a space for it, I would not have been able to move it since the dealer refused to return the wheels and tires he had removed from the coach when he set it up.

The attorney refused to give me the files and it was necessary for me to go to the State Attorney General's office in order to find out what my rights were. That attorney told me it was a cardinal sin to remove any files from the office, but after informing him that I went to the State office, he released the files.

I was able to obtain an attorney from West Hartford to handle the eviction. It was only then that I learned the Danbury attorney signed a court judgment without my knowledge.

The eviction was heard in Danbury. The judge did not want to hear anything about the case, told my attorney not to come back and said he was all for property owners evicting people they did not want on their property, and gave me two weeks to move.

Since I was not able to find a space for my coach, I was forced to leave it on the dealer's premises. I stopped payments to the bank because I could not pay for rent and the coach at the same time.

The bank sent me a notice of sale dated June 11, 1968, stating that 15 days after May 31, the coach would be put up for public or private sale. I never received the notice until June 17, 1968, which was 3 days after the coach was sold.

On June 25, 1968, the Bureau of Motor Vehicles held a hearing and the dealer was penalized and put on probation for a year. At this hearing, the dealer's testimony was proven to be perjured. I also learned that the dealer swindled me out of $3.00 on the tax and title fee.

After a two-year wait, my suit against the dealer to recover my down payment was held on May 18, 1970, in the Litchfield Common Pleas Court. The judge did not want to hear the case because he felt there was a great deal of work involved in it. The dealer, his wife, daughter, caretaker and a bank representative again gave perjured testimony the papers were never served to me because they could never locate me and also that I moved into the coach without permission. I had no witnesses and relied on my strong sense of justice and integrity.

Last week, I received the judge's decision and was appalled that his decision was in favor of the park owner/dealer. The judge also granted him the right to enter a judgment against me.

There are very little, if any, laws covering mobile homes in the State of Connecticut. There are practically no laws protecting the consumer and there is no help from the Consumer Protection Division, or anyone else, for that matter.

The mobile home situation is deplorable and it is obvious the courts uphold frauds and condone the tactics of these exploiters.

I do not have the money to appeal or to pay any judgments. There have been many injustices in my case and I believe there is an urgent need for realistic laws where mobile homes are concerned, and for frauds to be properly punished by law.

I am employed at Western Connecticut State College, 181 White Street, Danbury, Conn. 06810, from Monday through Friday, 8:00–4:00 P.M. The telephone number is 203–792–1400. I can be reached at my home after 4:30 P.M. My phone number is 203–748–4596.

I look forward to hearing from you.

Sincerely yours,

Mrs. CISELLA M. PRUE.

JUNE 30, 1972.

DEAR MR. NADER: I hope I have finally found someone that can help me. I have previously written to Barbara Dunn, Dept. of Consumer Protection in Hartford, Conn., but was told she couldn't help me because it dealt with an out-of-state company, that is why I am writing to you for help.

My husband and I bought a mobile home in November, 1970 from Pine View Mobile Sales in Winslow, Maine. It is 12 x 42 and cost us $4295 not including tax, finance charge, etc. It is financed through General Electric Credit Corp., in Stamford, Conn.

Less than one month after we got it, it started leaking in the kitchen. We notified the trailer co., and after a few days of waiting a man finally came to fix it. The only trouble was he came after dark so my husband had to hold a flashlight for him to see, and as a result of this he did a very poor and sloppy job. The tar was dripped down the side of the trailer and the leak was very poorly fixed because it still leaks, now worse than ever. As a matter of fact, the roof leaks in a number of different places in three of the rooms. At least it was three the last time I was there. (To explain that, we have since moved to Conn., but visit the trailer quite frequently.)

I have written a number of letters to both Pine View Trailer Sales and General Electric in the last eight months or more but have received no satisfaction from either of them. At first I asked only that the roof be fixed properly but I was told it was too wet. In my last letter, to Mr. Hayes, District Collection Manager of General Electric, I said I refused to make any more payments until something was done. His answer? There is still snow on the roof. If that's true, then my trailer is the only object with snow on it since its been in the 67–70 and a few times in the 80's.

Enclosed you'll find copy's of all my letters to them and their answers to me.

I hope that in some way you'll be able to help us. Hopefully to get some of my money back since I hate to lose out on $2200. I'll be glad to supply you with any more information that you need.

Also could you please inform me how much of a fee will be charged before something—if anything—is done.

Sincerely,

Mrs. DIANA BENNER.

WARREN, OHIO.

Mr. RALPH NADER,

DEAR MR. NADER: I read an article recently in the Warren Tribune, written by Jack Anderson, about Mobile Homes. Mr. Anderson based his article on findings of one of your committees.

We have such a Mobile Home. It has leaked since we bought it. The people we bought it from have caulked it several times and the manufacturer did the same and also replaced parts of two (2) ceilings, but it still leaks.

The water heater leaked and the park maintainence supposedly repaired the leak. Sixteen (16) months later the floor under the water heater weakened enough to cause the legs of the water heater to sink in and tip, thus causing the vent pipe to pull out. The pipe then leaned against a closet wall. The heat from the pipe charred the paneling nearly catching fire. Luckily I found this in time to prevent a tragedy.

The park management put a piece of 2 by 4 between the outside wall and the heater and no other means has been made to correct this.

We have consulted a lawyer and need a reliable person to make an estimate of damage, but cannot find one because, no one wants to get involved in this because of the legal proceedings.

I work and support my two (2) children and my mother, and of course I am obligated for any repairs that need to be done after the warranty is up. But, the complaints I have made above are all things that were wrong from the beginning and after a time they have of course gotten worse.

How does one go about getting people to properly service what they sell. I know by exerting pressure on these people living here will be very difficult, yet there surely must be something that can be done. Can you advise me? Is there a possibility of getting a refund on this Mobile Home? Any advice you can give we would be so grateful for. Thank You and

Sincerely,

MRS. SANDRA WESTON.

CONVOY, OHIO, *May 14, 1973.*

RALPH NADER,
Center for Auto Safety,
Washington, D.C.

DEAR SIR: A few weeks ago I read an article in our newspaper about the investigation you are conducting on the mobile home industry. I was sure glad to read somebody is trying to do something about this industry. Would like to have a copy of your findings.

My main reason for writing you is to let you know I am one who got caught in this industry's trap. The way I feel at the present time is that this industry is the largest fraud and racket we have in this country today. Along with the industry are some of the dealers around the country who just want to make a fast buck in any way they can. There are some good honest dealers around but like me one does not always know until after a deal has been made. I had one dealer ask me if I knew how to get a good mobile home, 'coarse I said no but I would like to know. He told me to have he dealer I dealt with to order a show home and another dealer told me to buy one from the lot and do not order from the factory. This is good for the inside and what the eye can see but what about all that is covered up. Look at Fleetwood Corp. homes, they advertise 4 inch walls then use 1 inch blanket insulation on the outer walls and floor so there is nothing in these 4 inch walls but air.

I think the big joke is the blue sticker the industry uses MHMA approved and the ANSI code. Let's look at who heads the MHMA then consider what good it would do to go to them with a complaint on a home. Also the ANSI code standards are so flexible any kind of a cheese box can be built and sold to the public. I have found the dealers will set up a model on the lot which is all clean and shined up and this is what you order from but when the unit comes from the factory it is something else. This is what has happened to me.

The home I ordered came to the dealer's lot and sat there for a week then he moved it on my lot and it sat for another week in the same condition it came from the factory and he made no effort to clean anything. While this home was on my lot I had a chance to inspect it and I found it in such a condition I decided I was not going to live in a home of this kind. I then went to an attorney told him the situation and showed him the order. he told me the dealer could hold me to nothing. Now after about 7 months the home is still sitting on my lot which I cannot use and I am faced with a law suit for the price of the home plus $500. I have had the second attorney on the case but still nothing settled.

We talk about justice and consumer protection but where is it or who is it for. I can't help but wonder how many thousands of people are living in homes of this type but do not realize what they have.

At this point I am going to close and wish you luck in your investigation.

Respectfully Yours,

PAUL A. REDLINGER.

NASHVILLE, TENN.,
March 16, 1973.

MR. JACK ANDERSON,
Washington, D.C.

DEAR MR. ANDERSON: I read with very much interest your article "Mobile Home Boom Bungle." It appeared in the Sunday, March 11, 1973 issue of the Nashville Tennessean. So many times I have remarked: "Ralph Nader should take a look at the entire Mobile Home Industry." All items you mentioned are true, however, you only touched the surface. If the industry has any standards they are either very weak or are completely ignored.

It would be real interesting to know what the builders discuss each year when they meet in Louisville, Kentucky. It's no wonder the sessions are closed to *all* except dealers.

I purchased a mobile home 22 months ago. It was about two months old. I paid $6,500.00, it sold new for $7,100.00±. It is a 1971 Crimson 12' x 68' 3 bedroom, 2 full baths, manufacturer's Identification No. 168–3371. The following problems exist:

(1) *Very Poor Insulation.*—Wind blows unrestricted at all windows, doors, electric outlets, switches at the floor where walls join floor. Electric bills have been as high as $70.00+ per month. In this area, a house with about the same S.F. of living area, same appliances, the electric bill is about $30.00. Also very hard to cool in hot weather.

(2) *Cheap Paneling, Poorly Installed.*—I am enclosing sample of paneling and mold. Also a sample of shoe removed from a home next door due to leaks causing the carpet to be replaced. *Note this plastic shoe mold burns very good.* It's from an Atlantic 12' x 60'.

(3) *Cheap, Poorly Installed Plumbing Fixtures.*—Have no overflows, faucets very cheap.

(4) *Very Poor Overall Construction.*

I agree some mobile homes are well built, travel trailers Airstream, Holliday Rambler are very nice. In large homes I believe Norris builds a good unit.

I always read your column. This being the first time you covered a subject that touched me so direct.

I had the pleasure of knowing your late associate, Mr. Drew Pearson. I spent about three hours in his home and on his farm on May 4, 1968. We had breakfast and a conversation on many subjects.

Very truly yours,

JAMES I. DAVIS.

DECEMBER 22, 1971.

Mr. RALPH NADER.

DEAR SIR: In 1969 we bought a new Skyline from B & M Sales in Albany, Oreg., on Nov. 29, 1971. We went to see the managers of B & M. We have had trouble with it leaking from the first day we got it. They came out and put junk on the roof. We put 2 gals of silver sealer on and it still leaks. They say there is nothing they can do now the warranty is up. The ceiling is all water stained. They tried to repaint the stains but that's impossible. We had trouble with the water heater. They came out and said they had fixed it. We are without hot water. After paying that much money we feel they should replace this mobile home. Hope to hear from you soon.

Yours truly,

DOUG NIPP.

EUGENE, OREG.

CONSUMER PROTECTION BUREAU
Commerce Building,
Salem, Oreg.

MRS. WANDA MERRILL: On June 26th we purchased a homette trailer home from Flair East of Portland, 18005 S.E. Division, built by Skyline Corporation, 550 Booth Bend Rd., McMinnville, Oregon this is a 24 by 64 mobile home.

We were shown a display home model on the lot fully equipped with stove oven, range hood, garbage disposal, refrigerator and fully carpeted. We ordered ours, this model direct from the factory, to be delivered to our sight in Eugene, so we did not see it until it arrived (was delivered).

When we arrived in Eugene to move into our trailer we had some of the following problems, the trailer was placed forty four inches above the ground on high blocks and in violation of park rules and the park manager informed them of this when they were setting it up, after numerous calls to Flair East Trailer Sales and talking to everyone from the service manager to the owner, I was forced to lower this trailer my self, my son, my daughter and my wife, we lowered it: this trailer weighs about ten ton. The plumbing was hooked up wrong and in violation of the city code, by the city of Eugene, the city inspector was out here several time and voiced his disapproval and left written instructions. Flair East was advised of this also. The plumbing and sewage was changed at the time we lowered the trailer to comply with city code at a cost of fifteen dollars and sixty five cents to myself, and before this we had numerous leaks throughout the entire

system, these leaks have now been taken care of through Flair East. The electrical system was also in bad shape on arrival, bare wires protruded through the wall where a range hood should have been, the built in dishwasher was not connected to the electrical system, again bare wires, half of the kitchen outlets did not work, some of our over head lights did not work, we had no power in one bedroom, our heater did not work, Flair East was advised of this numerous times and did nothing. At the end of the third week we contacted a Mr. Bowers, owner of Flair East and suggested legal action who then put us in touch with the factory at McMinnville, ten days later an electrician came out and over hauled the electrical system in order to make it work, he spent about ten hours, he found among other things, three circuits that went no where and posed a terrible fire hazard.

This trailer was supposed to comply with Oregon code when delivered from the factory and obviously was not inspected at the factory. Why?

In repairing the electrical system the electrician had to tear out inner walls and siding from the outer walls and this has not been repaired as yet.

We have weak spots in the floors, two walls that do not fit up right, we have leaks in the ceilings in the front room and kitchen, we have a back door that takes water, ceilings have been stained from the leakage, it is now the 20th and still raining; we may sustain more damage to our home, furniture etc.: We have panneling pulled away from the frame and ceilings pulled away while in transit from the factory and we are still waiting for repairs.

When we ordered our carpets we specified good household padding be used, instead we received a cheap poor grade of foam rubber, we complained to the dealer at which time they brought out a cheap waffle pad and installed it not bothering to, take out the staples from the other pad and we feel sure that in time these will work up through our carpet.

Storm windows that we were assured came with this coach are still missing, window screens and mirror damaged in transit, a drape damaged in setting up an additional cabinet which was to be installed as yet none of this has been done, taken care of.

We ordered our trailer from one on the lot fully equipped except for a refrigerator at the price of $13,000.00; we also wanted coppertone appliances which the factory could not furnish but that Flair East could. On June 26th we signed a contract for $13,000.00 and at 7% interest, when we signed the final contract it was $13,950.00 and at 11¾% interest, which at the time we had to accept since we had sold our house and had to have a place to live, all of our furniture, household goods clothing etc.: was setting on our trailer, truck and we were living in our camping trailer in a state park with all of my family. I had already been transferred to my job in Eugene and we were waiting delivery of our mobile home.

Our trailer was delivered without any appliances except the dish washer, we were informed the dealer could not furnish anything else, since then we have purchased a table top range at our expense, a washer and dryer at our expense, the dealer took our old set with the understanding of getting us a new set at builder cost we still have no word on any of this. We still have no oven and cannot purchase one to fit the cut opening for an oven.

We were assured by the dealer this trailer was fully warranted and would be properly set up by them, and at the last we were informed they would not hook up the electricity which was done at a cost to me of $82.28 plus an additional $11.00 building permit.

We have been under tremendous pressure by the plumbing dept., electrical dept., and the park manager, because this trailer did not comply with city code or park regulations. We have tried every way we know to get an adjustment of our grievances and have been unsuccessful. We have another meeting set for the 28th of August with Flair East, the owner and salesman, but have little hope for adjustment of our grievances. We sincerely hope you will be able to help us.

Sincerely,

ROGER S. BARBER.

WHEEL ESTATES,
North Adams, Mass., April 27, 1972.

Mr. RALPH NADER,
Washington, D.C.

DEAR MR. NADER: On January 1, 1971, I purchased a Peerless Mobilhome from Wheel Estates, Inc., North Adams, Mass. for $7,000. The first week I moved in I noticed there were no light covers for the fixtures in the bathroom, the aluminum door was bent and the glass broken, the moulding was not put in on any of the panelling, the faucet in the kitchen broke off the first time it was

used, the faucets and toilet leaked and numerous other things that one does not find until they have moved in. They have since then been repaired or replaced by Wheel Estates all but the aluminum door which the manager of Wheel Estates has told me he has called Peerless a great many times concerning this door and has never received an answer.

On Approximately January 6, 1972, the furnace broke down and I sent a letter to Duo Therm (copy attached) to which I have never received the courtesy of a reply. If you will note from the letter attached the guarantee was effective 1–22–72 so the furnace was within warranty.

During the March thaw the roof leaked and all my dishes were swimming in water which left all the ceilings with water marks.

On April 20, 1972 I left my home to go to work and my bathroom was flooded with water. My electric water heater had a hole in it and had to be replaced which Peerless said I had to pay for. (Approximately $125). On that same day I called Peerless and asked for the Sales Manager, who was not in, to return my call. The operator at Peerless said someone would be in touch with me by Friday April 21st for sure. On Monday, April 24th when I did not receive an answer I called and demanded that I speak to the President or the Sales Manager. The Sales Manager came to the line and I told my story to him. He told me that everything put into the Mobilhome was warranted by a different company, the aluminum door by Phillips, the furnace by Duo Therm, the electric water heater by General Processing Corp., etc. I explained that I had written to Duo Therm without even the courtesy of a reply and that I was not going through that everytime something went wrong. I believe Peerless should stand by the Mobilhomes that they manufacture. The Sales Manager then promised that I would have an answer by Tuesday, April 25th to which I have heard nothing. I cannot believe that these manufacturers can charge a person $7,000 for an item that will not even last for a year and 4 months.

Another point I would like to bring out is the fact that the furniture is so inferior in this Mobilhome that 16 months later it all has to be replaced. I have large holes in all my living room furniture and it is not because my family is destructive. A month after I moved in all the springs in the sofa had broken through the bottom and Wheel Estates repaired it.

I thought this might be of interest to you since I have read in the papers of your investigation of many large concerns.

Thank you for your interest.

LINDA TASSONE.

STONEHAM, MASS., *April 2, 1972.*

DEAR MR. NADER: Just got finished reading your article in Ladies Home Journal concerning unsafe homes.

I'm very discouraged at this point so I'll write you now as last resolve.

We are a family of three—mother, fatner and son, sixteen years old and our two dogs and cat and an orphan dog we are desperately trying to find a home for. We live in a very old mobile home that is 40x10—one bedroom, kitchen and living room. We are not only living under crowded conditions but unhealthy and very unsafe. Every time it rains water pours into all the holes in our trailer at some spots one can put their hand thru the paneling. The door to our bedroom in winter freezes up so that the handle has now broken and the door we had to close off. It can not be replaced because they don't make doors for this trailer anymore and the frame is all warped. The other door to the kitchen also is beginning to freeze up in winter and the handle on that is almost gone. Soon bugs will be invading us and I mean into our beds and food. Lights blink. Water also comes in thru roof. We've spent over $2,000 trying to fix this place up but to no avail. It still is very unsafe!

I've written to Pres. Nixon and Gov. Sargent but got nowhere.

We've gone before the "Boards of Appeals" and was turned down by one vote, because they say that replacing this trailer would be "prolonging the life of a nonconforming structure". This trailer was here before laws were passed prohibiting trailers. My son has made many fine friends here and wants to stay, but he is very doubtful, when the time comes that he might have to go fight for his country and he calls this unconstitutional.

(Please help us, Mr. Nader, we are very hopeful my husband will find a job soon and when he does we'd like a permit to replace this "fire trap", for a safer one. Can you help? I will certainly appreciate any advice you can give us.

Sincerely,

MRS. KENNETH LASKEY.

LEWISVILLE, TEX., *January 5, 1971.*

Mr. RALPH NADER,
Washington, D.C.

DEAR MR. NADER: This past July 15 we moved into a brand new, nearly $10,000 Patriot mobile home, purchased from Highlander Mobile Home sales here in Dallas, Texas. This home is manufactured in Kilgore, Texas by Blakeney Manufacturing Company. The financing is being done through General Electric Credit Corporation in Oklahoma City. This unit supposedly is guaranteed for one full year.

From the very beginning we have had nothing but problems with this home. We had leaks through the back bedroom windows and it was only after we'd hired an attorney who called them to tell them we were filing suit that they finally repaired the leaks. There are still several other items to be remedied. We have sent them registered letters, we have telephoned them to no avail whatsoever. Our attorney has also contacted them by the same means and has been ignored.

Our biggest concern and the point of this letter is: who is liable for the warranty of the mobile home itself and/or its appliances? Our main problem is the dishwasher that came installed in this home. Its a Modern Maid and comes from Chattanooga, Tennessee. This appliance has never worked properly. At first we could not get water into it; then it leaked, all of which coincided with garbage being all over the dishes after the cycle had been completed. I have handwashed and dried dishes, placed them in the dishwasher, run the cycle and you wouldn't believe the mess I have when its finished! "We have contacted the mobile home dealer, the manufacturer in Kilgore and the dishwasher people themselves—all of whom agree there is a problem, but who pass the buck to the other which puts us right in the middle because no one is doing anything." The last time we had any contact was in October at which time a representative put coffee grounds down the sink, turned on the dishwasher and the coffee grounds came back up in the dishwasher. He promptly pronounced it an installation problem! The mobile home people keep telling us there's something wrong with the appliance itself and its up to Modern Maid to repair it and consequently, we can't get anybody to do anything.

Mr. Nader, somewhere, someplace there surely is an agency that can help protect consumers like us. It cost us $100 to retain an attorney to get the leaks fixed (he earned his money) and he's thrown up his hands on this dishwasher problem. I don't suppose there's any way we can ever get that $100 back. We'd sue about the dishwasher but who do we file suit against? We feel like we're hitting our heads against a solid brick wall. I'm sure there are hundreds more just like us who purchase some item in good faith, only to have it fizzle out (if its ever worked at all that is) in a short time and never be able to use that item again.

I would appreciate your directing us as to the proper action we should take regarding this matter so that hopefully it can be resolved as quickly as possible. We're fed up with paying for an expensive item that we can't use.

Thank you for any assistance you can provide.

Sincerely yours,

MRS. MOSIE CLARK, JR.

SAN ANTONIO, TEX., *November 16, 1971.*

Mr. RALPH NADER,
Washington, D.C.

DEAR MR. NADER: You are doing excellent work in trying to change things somewhat for the customer rather than let the manufacturer make inferior grade merchandise & then the customer is stuck with the repair bills. I do think you missed one business that is really putting out inferior merchandise and charging high prices for what they are selling and that is the Mobile Home Business.

I am enclosing this letter regarding the plumbing & I will draw a diagram showing just about where our kitchen sink drains. I think it is ridiculous & as I stated in my letter, I am sure we will have much trouble with this system.

In looking for a mobile home in which to live we found such shoddy work that it was unbelievable. Very few of the cabinets had floors in them. (We found the "Patriot" that was built better than some of the others, but, we also paid a good price for it too.) Most of the cabinet work in the kitchens was not finished. It

looked like the workmen might have had a spare piece of wood and just put it anywhere to get rid of it. The furniture, the carpeting, drapes, paneling & everything else put into them seemed to be the very cheapest items that could be purchased.

All of the plumbing is made of plastic, the tubs, sinks & commodes in most mobile homes are the cheapest plastics that money can buy.

It was not my choice that I live in a mobile home, but since I am here, I feel like we did purchase one of the better ones on the market. If you could see all of the errors in this one I think you would understand what I am talking about. With rent so high now & house payment out of sight, people do have to live in something. It is too bad that all of us have to be prey for money hungry vultures.

Respectfully,

Mrs. O. K. Henson.

San Antonio, Tex., *November 16, 1971.*

Blakeny Manufacturing Co.,
Kilgore, Tex.

Gentlemen: We purchased a beautiful "Patriot" mobile home in September. The dimensions are 14×73. The mobile home is extremely livable and we have many compliments on it. However, I cannot figure out why the sewage system was put in in the manner that it was.

At the present time our sink is so stopped up that there is no way to unplug it short of tearing out the bottom cover & insulation in order to even get to the pipes, and then we have to cut the pipe to clean it out. If there should be a leak in the future all of the insulation will get soaked. There is not even a clean-out joint in the pipe anywhere & the pipe from the kitchen runs clear back to the water heater then makes a 90 degree angle to connect with a pipe across the mobile home which is an additional distance of at least 12 feet. Just how did you expect anyone to repair the plumbing in this particular mobile home?

We also had a leak under the sink due to the poor installation of the copper tubing. It had been crimped so badly that it sprang a leak so fine that it was almost undetectable. I finally located it with my hand, but, not until the wood in the floor of the cabinet + the insulation was soaked.

We bought the mobile home in September, as I stated previously. At the time I reported a cracked fiberglas tub. I was told by Mr. Stanly Poisso that a fiberglass kit was being sent from the factory. I still have the cracked tub & so far there has been no sign of the kit for the repairs unless it was sent & we were not told about it.

When we purchased the mobile home we were also under the impression that we were getting ¼'' paneling. This is not the case in our mobile home. Due to circumstances that were not of our doing, we have a 1'' hole in the paneling in the rear bedroom that is near the ceiling. We just overlooked it when we were checking the trailer out. The paneling at that point is about the thickness of my fingernail.

I am very disappointed in some of the things I am finding wrong with our mobile home. Since we never lived in one before we just were not aware of what to look for.

I would like something done about the sewage system because I feel sure this is only the beginning of a long series of repairs connected with it.

Respectfully,

Mrs. Ollie K. Henson.

Newport, Maine, *July 28, 1972.*

Dear Mr. Nader: I do not know if you have done any research on mobile homes but my husband and I certainly wish someone would. We thought you might be interested in hearing our story.

In March of 1971 we bought a Redman mobile home (1971) and moved into it in July of 1971. It was new at the time of our purchase and we were led to believe it was one of a better line of trailers. It was not small (70 x 12), nor was it inexpensive. We have no children and we both work days so the trailer has not had rough treatment.

The second day we lived in our trailer the kitchen faucets had to be replaced. The hot water could not be shut off and the faucets could not be repaired.

The third day we lived here we had a repairman come to adjust the water heater which no longer worked. The repairman had to return again within the week and replace the thermostat on the water heater.

In the early fall a furnace repairman came to replace the furnace thermostat which did not work. Within a month he had to be called again to make an adjustment on the furnace itself. Later he had to return to replace the emergency switch which burned (electrical wires and the plastic switch itself).

We had several electrical fires in the lighting-wiring because the switches were adapted to copper and the wiring was aluminum.

During the winter the inner-walls separated from the ceiling approximately two inches. When the partition separation was repaired the repairman told us the walls and ceiling were never actually connected.

The legs broke off both the beds and the couch in the living room.

Three of the electrical outlets were not even screwed into the wall.

In particularly hard rain storms the trailer leaked between the paneling and the outside walls, by a kitchen window, and in one closet.

In our den, kitchen, hall, and living room the floor separated enough so that it squeaked and bounced when anyone walked across it.

This spring while washing dishes in the kitchen double-sink, I thought I heard water sloshing. I opened the cupboard doors to find my dishes, pots and pans filled with water. The plastic pipes let go and fell off. They were not threaded so there was no way to screw them back on and there were no nuts or bolts to tighten. Of course the water did not do the fiberboard shelves any good.

We went to Grant's Trailer Sales in Bangor with our first few complaints on the water heater. The first two times we called Grant's they sent us a repairman after that they refused our requests for service. We bought our trailer from Mr. Grant himself with the understanding they would service all major complaints, however he has considered all our complaints too minor to be handled by their company.

In February we contacted Redman Industries Inc. in Pennsylvania. Our letter was forwarded to Dallas, Texas and returned to the branch office in Pennsylvania. In April we received a letter from the Pennsylvania branch sales manager saying that his company would reimburse us for the faucets and electrical wiring (which they have not done yet). Their service department did come eventually, Memorial Day weekend, to fix the partition separation and the floor separation, replace the electrical switches, and repair the major roof leak.

If you are doing any research on mobile homes we wanted you to know about ours.

Sincerely,

Mrs. Barbara Brown.

January 21, 1972.

Mr. Ralph Nader,
Washington, D.C.

Dear Mr. Nader: I am writing this letter to your department, very honestly as a last resort. I do not know if my complaint would be of any interest to you, but if not, perhaps you could refer me to someone that could help.

February 16, 1971 our mobile home was completely destroyed by fire, and since that time my husband and I have tried every way we can think of to settle this matter with our insurance company. The York Mutual Insurance Company of Maine, Buxton, Maine, however, has refused to pay the claim.

At the time of the fire my husband and I were at a funeral in New Jersey and did not learn of the event until the next day. The insurance company says that they suspect foul play in this fire and that they are investigating it. They have presumably been investigating for almost a year now and to my knowledge have brought no charges against anyone.

We have hired an attorney to bring legal suit in this matter, but due to the over crowding of civil court cases in this area, we don't have any prospect of a hearing until March and more likely not even then.

In the meantime we have continued to make mortgage payments in order to hold our credit rating. When we explained this to the insurance company, we were told that this was our own responsibility. I can not imagine that this is the purpose of insuring anything, only to be left out in the cold. We purchased this insurance in good faith, and can not honestly see why this claim has not been settled. I don't know why anyone should pay insurance premiums and then

have to go to the expense of hiring an attorney to collect what is rightfully due. Not only have we lost our home and all our belongings, but now have to pay an attorney one-third to collect it for us.

My husband is quite sure that I have wasted my time writing this letter, but at this point I am willing to try anything.

I don't mean to bring tears to your eyes with a heart rending tale of woe, my only purpose in writing this letter is to find out if there is someone or someplace I can go too for advice in settling this mess. I know your offices must be extremely busy after all you surely receive at least a few thousand letters a day, but if you could just acknowledge receiving my letter then I won't feel as though I've wasted my time and about forty sheets of paper for nothing.

Sincerely,

Mrs. Richard H. Howard.

Youngsville, La.

Executive Office of the President,
President's Committee on Consumer Statistics,
Washington, D.C.

Dear Secretary: On Oct. 2, 1971, I purchased a 1972 Manatee Mobile Home from Southwest Mobile Homes, Inc., P.O. Box 1506, Opelsusas, La. 70570. The home was built by the Division of Champion Home Builders (P.O. Box 663, Commerce, Texas 75428) in Sept. of 1971.

With the purchase of the home came a 90-day verbal guarantee, which included any minor or major repairs which were caused by manufacture's defects in workmanship.

Within the 90 days several repairs have had to be made, most of which have been corrected. However, the major prob'em which is that of raining through the tops of 14 out of 20 windows has not been solved.

Since Oct. I grant you they have sent several different repair men to fix it. These are the things they have done to try to fix it but still have not succeeded. They have removed all windows, recaulked and resealed them. Removed roof caping, resealed and nailed aluminum exterior panels, installed caping and roof, sealed both roof and caping overlay. Also sealed exterior panels above windows, all of which did not solve the problem. The men returned and replaced all the frames, caulked and sealed windows from the inside which keeps the window from leaking but doesn't stop the rain from coming in the walls.

I in turn removed one interior window home that had been repaired and found that water from the day before was still on top of the window frame. I then water-checked window and found it to be leaking through the exterior panels into the wal's.

A sales manager from Texas came to our home while the trailer was being worked on. We showed him where the floor sags in the hall by the door, which by the way had been leaking before, and he said they all do this. He also said we should have paid 13 or 14 thousand dollars if we wanted anything, that we couldn't expect much for $7500. He also said that no matter what he did, we wou'dn't be satisfied, therefore they wouldn't do anything else to fix it, unless we found the trouble ourse'ves, then they would fix it. Well as I stated, we did find the trouble and it was verified by a professional carpenter we hired to come and check it.

I then called the factory and spoke with a Mr. Minos and explained they had really tried but the trailer was not fixed. He said he would call Southwest Mobile Homes to speak with them and return our call. To this day he hasn't returned it. They in turn called him back and he says they will not repair it or give us another trailer. They will on'y give us another trailer by taking this one on a trade-in and we would have to pay the difference.

I simply can't see paying $7500 on a 10 year loan to get something that breaks and * * *that comes through the * * *

* * * at the bottom of the window frames, large enough that you can put your hand and feel the insulation.

I sincerely do hope that when you read this letter the trailer would be fixed. I suppose the only way we will be able to benefit would be for us to go to court and sue, but I sincere'y do hope that you can look into this matter and if you can't help us perhaps you can prevent someone else like myself from getting a bad deal.

Sincerely yours,

Mrs. Nelson G. Gonzales.

REPAIRS THAT WERE NEEDED

(1) Raining in back door (corrected by sealing).
(2) Hole in duct work of heating system (corrected by taping it).
(3) Cracked commode tank (put new one).
(4) Leaky gas line on hot water tank (took one week to fix, said would not do anything until it was fixed).
(5) Sagging floor (not fixed).
(6) All light switches were bad (changed all of them).
(7) Cuts in floor (was supposed to be on order when we moved in but says they discontinued it).
(8) Leveled trailer five times (has to be unlevel for back door to close).
(9) Frame is all twisted and bent.
(10) Connections for a washing machine was not connected (had water all over floor and tile came up which they glued back).
(11) Front wooden door wouldn't close after trailer was leveled. (Had to take off hinges. Said we needed a complete new door lint. Will not give it to us because he says they will all be the same).
(12) Rains in walls which is not corrected.

MARCH 24, 1972.

DEAR MR. NADER: I am writing you in hope of assistance in what my attorney has told me is consumer fraud.

I bought a double wide modular home 2 years ago, there was several things wrong with the house after it was assembled, the outfit I purchased it from told me not to worry, that they would fix them faults I had found. After a year passed, I hired me an attorney and he is now bringing the matter into court, but he stated that he has had corresponded with you before, he suggested that I contact you for assistance. I had my house inspected by an inspector or representative from the Attorney Generals office in Springfield, Ill., they sent a man up to inspect it, and found several defaults with my house, I have paid $14,700 for my home here, I give him a check for $10,360 and a very nice house trailer which I feel was much better shape than my home is now, I made 26 phone calls to this company pleading with then to come and make the necessary repairs, after a year I had to get an attorney, Loren Golden in Mt. Carroll, Illinois, he is the one that said to contact you. I sure hope you can help me, please let me hear from you Mr. Nader.

Thank you.

CHARLES K. CRAVETTE.

P.S.—Some of the things that are wrong with my home are the ceilings are falling down, loose paneling, faulty storm doors, all other inside doors do not fit properly, faulty kitchen counter top, faulty plumbing, including the in the shower and bath, faulty broiler door on the oven, faulty fan in vent over the stove, faulty heating ducts, faulty downspouts and gutters, sealer under windows not painted, no heat vent in bathroom, fauly leaky bathhub and shower.

MARCH 29, 1972.

CENTER FOR AUTO SAFETY,
National Press Bldg.,
Washington, D.C.

DEAR SIR: Sorry for the delay, but here is the data we discussed on the phone about my Croydon Mobile Home. I am listing defects I consider inexcusable to the buyer of new property, and will try to exhibit without too much rancor or personal feeling. Home purchased February 25, 1972, for $18,425.00 Croydon Serial #1198.

(1) Heating System—
Incorrect thermostat.
No door on furnace.
All floor registers badly installed.
No pre-wire to air conditioner.

(2) Plumbing—
Bathroom (main) sink chipped.
Leak in bathtub drainage resulting in damage to insulation and subflooring.
Kitchen sink drainage out of plumb.
No piping cover in front (½) bathroom.
Leak in dishwasher intake.
Hot water heater damaged.
(3) Electrical—
Fixture in buffet faulty and installed in wrong place.
Dinette fixture hung crookedly.
(4) General—Interior—
Dinette chairs damaged (corrected).
Trim (base board and facing) not finished in both units.
Double door frame sprung.
Front of tag corroded from road surface splash en-route.
Clothes rod hangers deviate from factory representation.
Iron work not complete.
Window in living room sash out of plumb, same rear bedroom.
Cabinets promised in kitchen and bathroom missing.
All doors and paneling edges rough and seemingly not properly finished.
(5) Safety—
Fire hazard caused by debris left resting atop kitchen stove vent fan flap, blocking vent.
Screws and nails points sticking through into cabinet openings in kitchen.

All these defects were, I believe factory-originated. The dealer and park operator has been very cooperative in trying to correct most of them, and will complete the job as he can. However, with the price being what it is, I think more inspection of work should be made before delivery to protect future buyers. It is obvious that attention to speed of production damages workmanship skills. It is also my opinion that the so-called "depreciation" of a mobile home begins at the factory.

Would also suggest for insurance records and buyer's information that dealer's commission, transit fees, hook-up, and other involved expenses, be itemized. I also believe that the sales tax in the State of Illinois on the total price is grossly unfair.

Yours truly,

JAMES I. ROGERS.

JAMUL, CALIF., *September 10, 1972.*

MR. RALPH NADER.

DEAR SIR: After reading your article in Newsweek, I decided to write to you, hoping you may be able to advise me.

I lost everything in the San Diego County fire, Sept. 1970.

With a loan from the federal government, thru the Small Business Asso, I bought a brand new mobile home. It was delivered in the evening of Jan. 13th, 1971. I could not see the condition of it until next day Jan. 14th, when I immediately phoned the seller and asked how it got to be so badly damaged (*the roof caved in*) and why was it delivered to me like this. He told me not to worry *there was a 1 year guarantee*, which he and the manufacturer stands behind, and the repair crew would be along to put a new roof on.

For 6 months 1 repairman came along doing such repairs, which I think has only added to the damage. About 14 months ago I turned this over to an attorney who I believe could do something about it. Today he told me to apply to the S.B.A. for a loan to take care of all the damage, then sue for that amount. According to esitmates it could be as much as $7000.00.

I could neither qualify or carry such a loan, my husband has to retire in Jan. '73. I am wondering where both manufacturer and sellers of mobile homes find a loop-hole that it is so difficult to be able to get a case like this into court, when the purchase contract is clearly written.

I asked the attorney why not sue for a new mobile home, that is what was paid for, he doesn't think we could do this.

Maybe there is nothing can be done for me, but I'm sure your investigation will benefit future mobile home buyers.

So I thank you for reading this letter.

I am yours Truly,

MRS. GLADYS WINTER.

SANTA ROSA, CALIF., *June 14, 1971.*

Mr. LOWELL DODGE,
Associate to Mr. Ralph Nader,
Ben Franklin Station,
Washington, D.C.

DEAR MR. DODGE: Some time ago, when you were on KGO Radio Station, regarding "lemon" cars, I called you and you were kind enough to return the call. It was regarding our Mobile home, Manufactured by Holiday Mobile Home Company, 915 Piner Road, Santa Rosa, Ca., 95401. The President is Mr. Adrain Sharlach, and the Service Manager is Mr. Boyd Burton. We did not purchase from Holiday, but from American Mobile Homes Corporation, and we paid them cash. Their address is 4241 Redwood Ave., Los Angeles, California 90068. The President is Mr. Hugh A. Temple.

We seem to have nothing but trouble with this so-called mobile Home. The roof is the worst offender. The rumble bars are loosening, and knock in the wind, so by next winter the roof will have more leaks than ever. Even the last hard rain we had it leaked into the house in two places—not while it was raining, but a delayed leak of several hours. When I reported the mice coming in under the sink, to Mr. Don Bradley, the Service Coordinator for American Mobile Homes Corporation, I also talked with him about the roof. A salesman there in the sales office, asked what a rumble bar is. His name is Max Gibbon. Anyway, Mr. Bradley explained it to him, and said "If you ever have a mobile home and the roof rumbles, never let anyone put rumble bars on it". Then, why do they allow Holiday to install rumble bars?

What recourse do we have, Mr. Dodge, if any? We are told the rafters are too weak to have the roof tarred and graveled, after taking the rumble bars off. We are so soured on this home, and see so many others having so much trouble getting things taken care of, that wish we could get reimbursed for what we have put into the place, both inside and out. The air-conditioning system alone cost almost a thousand dollars, which is also paid for.

This mobile home was put here on the lot on June 24, 1970, and Holiday wrote us a letter, advising that we had a 90 day guarantee, but they did do quite a bit of work here after September 24, 1970. We still continue to let them know of things that are wrong, but advise through the sales office here in the park, which "gripes" are relayed to Mr. Don Bradley. But he takes no notice of them.

Thank you so much for returning my call that day, and we do hope you will be able to help us. It is not easy to get together the money to pay for a place, and expect it to last for a while, at least. Then you find it is a wreck to start with.

Sincerely,

E. DWIGHT HOOVER.

NORTH CONWAY, N.H.

Mr. RALPH NADER,
Washington, D.C.

DEAR MR. NADER: While from what we have seen, and been able to find by the publicity you have received about your work, we have the impression that you concern your efforts toward the corporations, and companies who are in some way doing something detrimental to the public on a large scale.

In writing to you it is my hope that you can give me some advice on how to proceed with the following situation:

On December 1, 1970, I purchased a 1970 Elcona Mobile home from Skipper's Mobile Homes Inc., on Route #260 in Bordentown, New Jersey. This mobile home was new, carrying a new 90 day guarantee.

The mobile home was delivered to me at North Conway, New Hampshire on Dec. 10, 1970. Since taking delivery I have discovered several discrepencies such as plumbing leaking, the roof leaks, the workmanship is not, by any stretch of the imagination, up to par.

I have written Mr. Skipper about these discrepencies without receiving any reply. In addition I wrote to the Elcona Homes Corp. in Elkhart, Indiana, con-

cerning these discrepencies, and they advised that the dealer was responsible for the necessary repairs.

Further during the ten days between the time I purchased this Mobile Home, and the delivery to me, there was stolen from this home an AM–FM radio. This occurred while the Mobile Home was on Mr. Skipper's property. I felt that he should be responsible since he did not apparently, take reasonable measures to assure the property on his lot.

Please advise what I can do, or how to proceed with this in order that I may have this Mobile Home repaired while it is still under the aforementioned guarantee.

Sincerely,

CHARLES J. WITTSEY.

SUNCOOK, N.H., *September 29, 1972.*

MOBILE HOMES MANUFACTURING ASSOCIATION,
Dulles International Airport,
Washington, D.C.

GENTLEMEN: I'm going to tell you about a new mobile home manufactured by Torch Industries Inc., Elkhart, Ind., and let you decide whether the MHMA/TCA seal of approval should be attached thereto. We purchased this 14 X 70 unit last December from Raiche Mobile Homes Inc., Hooksett, N.H.

When we moved in, the furnace wasn't working. A wire hadn't been stripped before it was connected.

We tried to use two electric heaters for the night, but they blew the same fuse twice—even though the heaters were plugged into outlets in different rooms and on opposite sides of the unit.

Twisted bits of metal, nails, splinters, and other debris were scattered throughout the home in the carpeting. Not a few here and there, but hundreds of them all over. After a half dozen cleanings and a lot of crawling on hands and knees, we still find these burrs whenever we walk barefooted.

There was no insulation at all around the water heater compartment, and we had freeze-ups in that area last winter—even with the furnace running and the temperature up to 70 degrees and higher. I'm wondering about the insulation, or lack of it, in the rest of the unit. There is no map or chart posted in the home, as required by MHMA/TCA, to indicate the zone for which this unit was built.

Plumbing under the bathroom sink fell apart when the plug was pulled to drain water, plumbing under the kitchen sink dripped continuously, and the tank over the toilet bowl leaks every time anyone leans back against it a slight amount.

Nails driven through window frames and corner molding entered nothing but thin air on the other side. Molding strips have fallen off the walls and the ceiling, and one corner molding had no nails at all for more than half its length.

The ceiling light fixture fell apart, a wall receptacle pulled away from the wall when a plug was withdrawn, the shade for a bedroom ceiling light fell off because the attaching nut was missing.

A large mirror in the bathroom fell off the wall, shattered over the sink, and sent glass flying to the floor—in large chunks and fine slivers—which could have seriously, even fatally, injured our baby if she had been sitting there in her chair at the time.

The fuse box has no cover, leaving the bare terminals and wire ends exposed to a pet or innocent toddler. Both the dealer and the manufacturer refuse to provide this cover, or to take care of the other defects mentioned—and the defects still to follow.

Upholstery on the living room furniture is pulling apart at the seams. Not just on the cushions, but on the back of the sofa as well. "We rarely have company, never have parties, and have only a four-month old baby."

Paper-thin shelves threaten to collapse because they are unsupported on either side. One shelf wasn't even level, and another had to be reinforced before it could be used. Drawers were not installed on a straight line and were open an inch and a half at one end when closed at the other end. Closet doors fell off the tracks when opened or closed, and mounting hardware was so badly deformed that one door scratched the other when moved.

Four screws supporting the hood over the range protruded a half inch into the shelf space above.

The opening for the light fixture over the kitchen sink was cut so big that the lens cover does not hide the opening.

Decorator pieces on the wall are cracked and chipped. Carpet cement pressed up through two holes in the kitchen carpet and was left that way.

I may have forgot a few items, and all my records are with the Better Business Bureau in Concord—I cannot review them at this time. These records will go to the Consumer Protection Division of the Attorney General's office next.

A copy of this letter is being sent to the President's Consumer Protection Division in Washington, and to Mr. Ralph Nader. Perhaps by working together, we can get these mobile hazards off the market.

Incidentally, didn't pay $7,000.00 for this mobile home—nor $8,000, $9,000, or $10,000—I paid $10,900.00. I'm not isolated in the boondocks, either; I'm located in the dealer's own park.

The dealer and the manufacturer did repair some of the minor defects, but they gave up. Neither one will so much as respond to a letter. When the factory repairman was here—after at least two letters; one to the President of Torch Industries—he promised to return or send another man with a month. That was back in April (April 7th, to be exact) and we've neither seen nor heard anyone or anything since then.

"Consider our position. We can't sell the home; who would want it? We cannot continue to live here; it isn't safe. We have over $3,000.00 invested; we certainly can't afford to lose that. A replacement unit would only start our troubles all over again, and even if all the defects we've detected so far were taken care of, what can we expect to happen next?" For example, a section of interior paneling is bulge inward, and the outside skin at the same point is deformed inward.

The Serial No. on your MHMA/TCA Seal of Approval is 2538291. How much that Seal means is up to you.

Sincerely yours,

ARTHUR J. CROSSLAND.

FEBRUARY 2, 1972.

DEAR MR. NADER: Since you are on Board of Director, and I believe you are working to provide consumers with information and counse'ing on consumer goods and servicing etc., etc., we are begging help and counseling concerning Mobile Homes—living; etc!

We ordered a Mobile Home in July 1971 moved into it Oct. 27th. We have had so many things wrong with this $11,500.00 home, and do not get decent service. The mon. mole. pk. purchases these homes from Shultz Corp. in Elkton, Md.

We did not receive any warranties until we fought for them and received them and Mobile Home maintenance manual on Jan. 28th, 1972. I am enclosing copy of warranty given us on Jan. 28th, 1972. Over 3 mos. after we're in, and as your may have noticed, it isn't even filled in, warranty coupon and was to be sent back to manufacturer within 10 days after delivery of our home.

There are a terrible lot of residents in this park that have had the same problems, and don't know which way to turn. We pay $93 plus $5 (for son) per month lot rent. We just received notice (copy shown) please read. We can hardly afford the raise, and the so-called improvements, are things that were supposed to be done and be here, when we moved in. Some people have had their lot rent raised twice in a little more than a year now. A couple widows here will not be able to afford it, and have given their life's savings for their home, et cetera.

When I wrote the owner and mentioned your name, he called right away, but doesn't seem too concerned, because they have money.

Could you, and would you please, have time to check into the mobile home park owners and the manufacturers, as we are suffering due to prices not being what they quoted us at first and have lost money, due to the management saying things were put into mobile homes (that we didn't even order).

Myself, along with most residents of the park are waiting to hear, as we know that if anyone can *help* us or advise us, you sure could, and Mr. Nader, if you could ever find the time, some second Tuesday of a month that would be available would you come to the park (unannounced) and sit in on a meeting and maybe you could help us through this! I know it's asking a lot of you, but we'd appreciate any consideration given us (other residents would, too!)

Please try to find the time and let us know.

Thank you!!

KARL AND JANE WENTLANDT AND SON.

WHARTON, STEWART & DAVIS,
Somerville, N.Y., June 1, 1971.

EUGENE GASSERE, Esq.,
General Counsel,
Skyline Corp.,
Elkhart, Ind.

Re Mrs. Drusiana Reniewicki.

DEAR MR. GASSERE: In accordance with our telephone agreement, Mrs. Reniewicki inspected her trailer on Thursady evening, May 27, 1971. Although some progress had been made on deficient items, the following is a list of items of an unsatisfactory nature which prevent Mrs. Reiniewicki from moving into the trailer:

1. Aluminum siding located behind a separately purchased tool shed and near a window, buckles.
2. Ground under trailer is uneven; blocks on which trailer is mounted appear to to be sinking.
3. The interior walls are loose and out of plumb; specifically, the wall near the aisle in the second bedroom and the wall over the vanity in the bathroom are very loose to the touch; the master bedroom wall against the bathroom wall and the living room feature wall (facing the kitchen) are also loose; the master bedroom door does not fit into the frame.
4. Damaged storm door not replaced.
5. Damaged inside front door not replaced.
6. Toilet flushes slowly.
7. Toilet tank top missing.
8. Molding around kitchen arch is in short, random lengths which do not butt together.
9. Ends of molding in built-in dining room closet are unpainted and cut at improper angle.
10. Splash suppressing mechanism on kitchen faucet does not function—water flows unevenly and splashes.
11. Guest closet interior is unpainted, rough wood.
12. Draw drape rods in master bedroom do not function properly.
13. There is no manual emergency control for the oil burner.
14. The second bedroom specially designed closet which was improperly constructed has not been modified to fill the space it was intended to fill.

As I mentioned in my telephone call, the trailer was put into place without inquiry having been made as to whether Mrs. Reniewicki wanted a concrete slab. When Mrs. Reniewicki inquired about having a slab installed, Mr. LoBianco advised her that he was too busy to do it now and that he might get a chance in the fall. It is possible that many of the defects about which we are complaining could be overcome if the trailer were properly mounted and we hope that Skyline Corporation will use its efforts to see that the trailer is properly set up.

Also as I mentioned in our telephone conversation, in view of the many and varied defects in this particular trailer, we request that an inspector from Skyline Corporation or Homette make a final inspection of the trailer after all of the mentioned items have been completed and prior to Mrs. Reniewicki's moving in.

Thank you for your continued interest and cooperation in this matter.

Very truly yours,

ROBERT K. HORNBY.

ONALASKA, WISC.
January 24, 1971.

MR. NADER: I write to you in hopes maybe someone can do something about a situation no one else cares to tangle with.

It concerns mobile homes. It seems there are very few laws and regulations governing the construction and building of them. If you get a bad one, as I did, there is very little can be done about it.

I have one the storm windows don't fit, storm door won't close, bed room doors won't close, furnace tilts, floor slopes, its unbelievable the condition this thing is in.

I purchased it April of 1970 from Northernaire Manufacturing, Auburndale, Wisc., through a dealer in La Crosse, Wisc.

According to Northernaire the original frame had no reverse camber in it to hold up home. (Also it was not built strong enough.) They replaced the frame. That did it, its worse now than before.

I went up to the factory and complained, while there, was shown through plant and saw homes being built. I couldn't believe my eyes.

I'm sure if you checked this out you wouldn't believe parts of it either. Yet I pay property taxes and no code or regulations are in force to protect my safety or welfare.

EDGAR EDBERG.

TOWN OF PULVERMACHER,
Poynette, Wis., April 26, 1972.

RALPH NADER,
Washington Public Interest Research Group,
Washington, D.C.

DEAR SIR: I am attaching a xerox copy of a letter I have written to Mr. James Sprague, President of Aetna Mobile Home Sales, Inc., Denver, Colorado. The letter is fairly complete and relatively self explanatory.

I purchased the home in August of 1971 and this is the most recent correspondence in a long chain of letters ranging from the funny to the ridiculous. And, as will be gendered from the letter, I have yet to find satisfaction.

I am sending this information to you because (1) I had heard you were becoming interested in the problems the consumer finds in buying a mobile home, and (2) at the suggestion of the local consumer protection agency.

As sole head of the household with two children, as a female, and as a graduate student investing every penny of my meager savings to insure a decent living condition for my children, I feel the scales were loaded against me—the consumer. Further I feel the utmost advantage was taken of the fact that I was obviously broke from having been forced to live in a motel and feed two boys in a cafe for an extended period of time awaiting the delivery of the home—I desperately needed a place to stay. Of course, hindsight tells me I was "frankly" stupid—unexcusably so in light of my education and experience.

In closing, I can only hope this information can be used in motivating regulation of the sales and warranty practices of the mobile home industry.

Sincerely,

SHIRLEY A. MARTIN.

P.S.—The mobile home was purchased for $11,400.00 plus finance charges totalling a grand figure of $21,000 and is a "Detroiter."

TOWN OF PULVERMACHER,
Poynette, Wis., April 25, 1972.

Mr. JAMES SPRAGUE,
President, Aetna Mobile Home Sales, Inc.,
Denver, Colo.

DEAR MR. SPRAGUE: Pursuant to our telephone conversation of April 22nd, I am setting down in detail the transactions surrounding the purchase of a Detroiter mobile home from your company.

First, I purchased this home in Colorado for delivery in Wisconsin because Mr. Martelon advised me that it could be ordered from the factory with a 30-day advance notice and that the floor plan (i.e. enlarging two bedrooms) could be altered. I placed an order with a $500 deposit followed by a $1500 down payment for a 14 X 70 Detroiter mobile home with an altered floor plan as follows:

(1) The front bedroom was to be enlarged by utilizing the space occupied by a half bath. This entailed eliminating a commode and not erecting the dividing wall between the "john" and the bedroom. The built-in sink and cupboard were to remain.

(2) Twenty-four inches were to be added to the middle (small) bedroom by utilizing twenty-four inches of the front room space thereby also extending the hall the same distance.

In addition, I ordered the home with harvest gold appliances and fixtures throughout including washer dryer, dishwasher, refrigerator and built-in range and wall oven. I specifically ordered the decor package with bar stools and with twin beds in all three bedrooms.

When the home came in, as you know, it had been involved in an accident. But in addition:

1. No floor changes had been effected whatsoever!

2. The commode had been removed from the half bath off the front bedroom but a large open hole extended to the plumbing. The dividing wall which was *not* to have been erected was indeed erected and the space was not carpeted, which it should have been in any case.
3. The middle (small) bedroom had not been enlarged pursuant to my order.
4. A neatly drilled hole the size of a quarter was found in the wood panelling behind the counter-top range.
5. While the kitchen appliances were harvest gold all appliances and fixtures in the bath were avocado green (ugh!)
6. A relatively large electrical circuit was nonfunctional amounting to no electrical output in over half the house.
7. The dishwasher was incorrectly installed to the garbage disposal.
8. There were leaks from one end to the other.
9. And, no bar stools were provided.

Then Mr. Martelon flew out to "set things straight." I specifically stated I didn't want the home and I'd prefer a new unit. He assured me and reassured me that the changes would be made. I stated at that time that I didn't want to sign the new contract (he said the new contract was necessary because of an error on the old one) until all changes were made or take the unit back. I did suggest that I would consider a reduction in the selling price in lieu of the changes but Mr. Martelon indicated that that wouldn't be satisfactory—that afterall the unit had been delivered and was considered my property now and that if I didn't accept it I would stand to lose my investment. I didn't, in any case, want to be unreasonable and I was under extreme pressure to have a place to live at that time. When Mr. Martelon showed good faith on the behalf of the Company in acquiring estimates from the Surburban Mobile Home Repair Company (the closest Detroiter dealer is apparently in Milwaukee), I agreed to take the unit with the specified changes. The estimate was submitted three times to my knowledge to Mr. Martelon and covered and included the following:

1. Repairing damage due to the accident—such as replacing broken glass, straightening the tongue and front frame including a split horizontal timber, replacing exterior panelling, etc.
2. Enlarging the front bedroom.
3. Enlarging the middle bedroom.
4. Replacing appliances and fixtures in bathroom with harvest gold.
5. Other miscellaneous warranty items such as electrical problems, leaks, etc.

Now I reiterate I would never have agreed to take the unit without these changes. Warranty work has been done in the interim as follows:

1. Fixing electrical circuit—authorized by Martelon.
2. Fixing dishwasher connection to disposal (plug has been left in)—authorized by Martelon.
3. Numerous attempts to fix heating system finally replacing thermostat and fuel injector system—authorized by Martelon.
4. Replacing guts of closet in front bedroom when it split in half & fell down and further adjusting of closet sliding doors because of warping (still not correctly adjusted)—authorized by Martelon.
5. Numerous attempts to stop leaks—authorized by Martelon.
6. Repairs because of damage due to accident (still not totally completed because factory sends wrong material)—authorized by Martelon and Mueller.
7. Major bathroom leak due to inadequate calking in seating bathtub (so bad that fungus-mushrooms were growing from the carpet)—authorized by Mueller.
8. Enlarging the front bedroom—started but not completed. The wall has been moved. Now wall moldings & ceiling molding & carpeting need to be done. The factory equipment is on my sofa but the repairman refuses to do more because he hasn't been paid since February—authorized by Martelon.

Therefore, in summary, according to my working agreement with Martelon as regards my accepting this unit—there remains:

1. Finishing the enlarging of the front bedroom.
2. Enlarge the small middle bedroom.
3. Replace fixtures and appliances in the bathroom without harvest gold.
4. Supply bar stools. I wonder at this point if I even got the furniture quality ordered. I specifically didn't want the "standard mobile home furniture" which has a tendency to fall apart within six months. I was buying a home—I thought—of quality to last as long as I needed to live in it or desired to replace it including furniture.

5. Fix hole in panelling behind counter-top range. Mr. Mueller authorized this repair but the piece of material which Mr. Martelon stated had been shipped from the factory was in fact not included when material was received.

In addition, now that the snow has turned to rain, we seemingly spring a new leak with every storm.

In closing I want to refer to the $80 rent deposit which I owe your company. I have delayed paying it purposefully (as stated in an earlier letter) because I haven't seen any real sustaining effort to meet the conditions tendered pursuant to my accepting and beginning payment on this unit. Again I state—I have no intention of cheating you out of this amount and I do intend to pay it just as soon as this situation is cleared up.

I also want to clarify that all calls placed to your company were authorized by Mr. Martelon.

I have taken the liberty of supplying Mr. Walt Wilson, Adjustment Division. The Central Bank & Trust Company, Denver, and Mr. George Martelon with a carbon copy of this letter.

I am clearly at the point that unless I have communication from you concerning this matter (it appears to me that the left hand doesn't know what the right hand is doing) that I must inform the agencies concerned with consumer protection and an attorney who can do a better job of protecting my interests than I have been able to do to date. So—please—I feel I've been reasonable and have been put off long enough and I don't really want to be placed in a position of being totally unreasonable. I'll negotiate but I won't accept things as they are at this time.

Sincerely,

MRS. SHIRLEY MARTIN.

LOXBY, ALA., *December 18, 1972.*

DEAR MR. NADER: I don't know how to ask you for your help other than just right out. So could you please help us to get our mobile home fixed?

The problem is our heating unit. It doesn't keep us warm at all and we use 100 gals. every two weeks. At 21 cents a gal. that runs into more money than we have. The heater cuts off and on like someone is playing with the switch on the fan.

Also wind comes in around the windows and light switches something terrible. In my bedroom it gets so cold that we have to have a large quilt on our bed to keep warm and my little girls has to sleep with her younger brother because his room is the warmest of all.

We have asked and begged and we've pleaded with the trailer sales to fix it for us. And they either send their repairman out here, who doesn't know his head from a hole in the ground about heaters, or they would just put me off like they did today.

Then we tried the people we bought the trailer through, First Federal Savings and Loan Assoc. of Mobile, Alabama, and all they can say is they are sorry but their hands are tied.

I asked them if these was any way we could give the trailer back without hurting what little credit we have and they said no.

Mr. Nader, I love my trailer but we can't go all the way through winter like this. We are expecting a new baby in about 4 weeks and I don't know if I can bring it home to a cold trailer. We are all sick with bad colds now, just think what could happen to a new baby.

So would you please try and help us real soon. We would be forever grateful to you for it. We need all the help you can possibly give.

If you can't, please let me know so I won't be looking for your help.

Here are the facts you should know. We bought the trailer from Glendale Trailer Sales on Hwy. 45 in Eight Mile, Ala. through First Federal Savings & Loan Assn. of Mobile, Ala. We have had the trailer one year this past November 14. The name of our trailer is a Manhatten. It is 12 by 65 and we paid around $8,000 for it at 113.26 a month.

Please help us! We are at our roads end.

Everyone tells us if anyone can get it fixed that you could.

Thank you.

Mr. and Mrs. EARL HARTLEY.

HUNTSVILLE, ALA.

Mr. HARRY BERMAN,
General Manager, J & L Homes Manufacturing Co., Guerdon Industries, Inc., Longeran Division, Ocala, Fla.
Attn: Mr. JAMES TAYLOR.

Subject: Defects, defective materials and workmanship, coach "1260–F–0–20129 9596–0–70.

Requested by Mr. James Taylor of above industry.

Below are listed the defects and corresponding services completed by Mr. Shelby Cole (dealer) and further corrections not satisfactory or completed.

External Defects:

(1) There was a total of thirteen (13) breaks in underneath outer flooring caused sagging.

Metal patches have been placed over each break which should not exist in a newly built coach.

(2) There was a metal screw driven into the wiring of the electric water heater. This screw was removed and a new element was placed in the heater; the thermostat was checked in the heater.

(3) All rivet type screws were loose and several were missing over the entire coach.

The upper and missing screws were tightened and replaced by a serviceman. The Callahan's assisted in tightening the lower screws, and purchased a special screw driver for this.

(4) The roof had been cool sealed by Mr. Cole, but there were four ceiling leaks which affected the inside of the small bedroom, hall ceiling, and large bedroom. The large bedroom leak soaked the built-in dresser and our personal belongings, and left a musty oder in floor of dresser. The hall roof leak soaked the carpet against the wall.

This has been corrected but it took four separate corrections by a service man and this was indeed costly to both Mr. Cole and the Callahan's.

(5) Facing the front of the trailer, the right side of living room window does not close properly. This double window isn't evenly set into coach; this has not been corrected.

This has not been corrected and we request this be corrected.

Internal Defects:

(6) The hall closet door had to be adjusted. All inside window frames were loose and pulling from the wall.

In order to adjust this door the serviceman discovered the inside frame had to be secured and nailed. All molding was retacked with finishing nails; he found the same condition inside window frame; he tacked all molding on, but did not have time to tear every window apart—*these conditions appear beyond the normal responsibility of any dealer.*

(7) The all-over wall paneling has continuous splinters sheding from the grooves of the sections. It has stain missing and appears bulged. Staples continue to work out, some staples right in the middle of panel section.

Short of repaneling, this is a hopeless condition, due to defective material and workmanship.

(8) Under the kitchen, frigid air just pours in. We finally discovered that no molding has been placed between the back wall and flooring. There's a large uneven space here.

The Callahan's bought foam rubber, cut it and stuffed in this area for a temporary correction. Request this condition be corrected.

(9) Finishing molding and shoe molding continue to pull loose and spilt. Door frame molding continues to pull loose. In large bedroom corner we have placed ribbon putty where outside light can be seen coming through. Along the inside hall molding the cold air can be felt pouring in.

Mr. Cole had much of this molding corrected, but much more needs securing. We request absolute correction of this condition. The bedroom corner condition allows heat and cold to enter. Request cause to be checked.

(10) Bedroom closet doors still keep falling off. Upper aprons were loose. Some molding and trim came off and still off. Large bedroom door still sliding on top only. Small bedroom closet door had insufficient screws in top metal frame. Further, small bedroom clothes bar is not centered and one bar bracket is split.

Inside of small bedroom door frames are so rough and splintering that if a garment touches it, it snags the garment. It is difficult to hang clothing because of the position of bar.

Action. The screws of small bedroom frame have been added—several adjustments have been made on the door by the service man. The crank bar has two screws driven clear through inside bedroom wall. Request the bar be centered and inside door be planed and smoothed.

(11) Plumbing: All plumbing facilities were loose; the toilet water box overflowed when flushed and soaked the floor several times.

The serviceman had to pull and tighten all fittings and screws which corrected the overflow problem; he also caulked and tightened all other connections. He further caulked all ugly large openings around plumbing to keep mice and bugs from coming in.

(12) Bathroom sink—the attachment screws which holds the sink are stripped and one is missing.

Request this problem be corrected.

(13) All rivet screws. All bathroom tub trim cannot be tightened.

(14) Floor registers (heat) original ones had no lever to open nor close.

Mr. Cole replaced originals but the levers would not work. The Callahan's purchased, at their own expense, a set which work. The screws floor holes are very bad—it is difficult to take in and out for cleaning. Mrs. Callahan recently almost fell when her foot lifted up a register (poor safety measure).

(15) Coleman furnace is a 10W with double switch action.

We have been told that 12x60 should have a 15W heater. We are going to verify this.

(16) Living room ceiling had one seam that was not even placed straight. It was stated it couldn't be corrected.

Mr. Cole's service man did straighten it. (Wall area is crooked) Poor workmanship.

(17) Carpeting—very poor. It has bare-like patches, poor nap, has a split in living room floor about 8'' long. It becomes grayish in well-tred areas. We have worn ourselves out trying to clean.

The split has been taped and a chair placed to hide it. We are careful—clean our feet and wear house-slippers most of the time.

Non-safety factors:

Rough splinters in many areas. Staples coming out onto rug. We must watch for staples and splinters. Mrs. Callahan just missed running a fine needle-like wire into her hand while cleaning the raised floor shelf behind the toilet. Further, she has had five small splinters in her hand when dusting walls, grasping closet edge with her hand. She has learned to be careful and cover hands.

WILLIAM J. CALLAHAN,
HELEN L. CALLAHAN.

Senator TAFT. Thank you very much.

Mr. FOSDICK. Senator, it is a pleasure for me to be able to be here with you today. I regret that an unexpected chain of events in our State senate prevented the Lieutenant Governor from being here.

The senate last Friday rejected the executive budget and adjourned until 10 o'clock this morning and he had to be there for that.

As chairman of the Governor's council for consumer affairs the Lieutenant Governor has been involved in the matter of mobile homes since July of 1972 when the council identified consumer dissatisfaction with mobile homes as a target area.

They conducted extensive research, they and the council staff, and developed legislation which we feel will be landmark legislation in the area of mobile home regulation and warranties.

That bill has passed the Wisconsin assembly and is pending as a special order of business before the State senate and we expect prompt adoption of the bill by the senate.

I think from viewing the testimony thus far today we are all reading out of the same hymn book with regard to the statistics about the

size of the industry and the percentage of the housing industry that mobile homes make up and so I will just skip over that. It is contained in my testimony.

I also have included in my written testimony a series of examples of problems that have been discovered by the council for consumer affairs in a recent survey they conducted of approximately 200 mobile homeowners in the Madison area.

One individual complained of a new home purchased for $13,000 in which the paneling peeled off, the roof leaked, tile buckled, bathtub leaked, the shower didn't work, the furnace had to be replaced when the water pipes froze and the 1-year warranty that the dealer and manufacturer provided was never honored in that situation.

I have a series of these and they are similar, but not at all unusual in our experience with those individuals surveyed.

I would reinforce what Mrs. McDonnell said with regard to development of construction standards as opposed to safety standards.

The Secretary should be made responsible for the development of standards which will insure the construction of safe and reliable housing.

I would also urge that an approach similar to the one that was used in Wisconsin be followed with regard to warranties.

I know, Senator Taft, that you have introduced an amendment in this regard.

We require manufacturers to provide a 1-year warranty on new mobile homes and by including in the definition of a mobile home the components, plumbing, heating, electrical systems, applicances and so on, we also thereby warrant those components.

We further provided in the warranty that repairs were to be made within 30 days at the site of the mobile home, and this mandatory warranty makes every mobile home buyer an active participant in the system of insuring sound construction. It, in essence, creates 600,000 watchdogs a year, if that is the number of mobile homes being sold.

The 30-day time restriction prevents lengthy delays and insures that the owners will not be without shelter for extensive periods of time if the defect renders the home uninhabitable.

I would urge also that you make both the manufacturer and dealer jointly responsible for honoring the warranty. Too often we found that consumers were bounced back and forth between the dealer and manufacturer when they had complaints.

Senator TAFT. Is that Wisconsin law. That both the dealer and the manufacturer jointly warranty?

Mr. FOSDICK. Yes; under the law not yet passed they would be jointly held responsible.

At this point I would like to enter into the record as exhibit 1 of my testimony a draft mobile home warranty bill which details how we approached this problem.

At one point in our negotiations with the industry and with the legislature we had contemplated two separate bills and this one was drafted specifically to serve as warranty legislation and subsequently the predominant portions of this legislation were included in our Compresensive Mobile Home Act. But it does have some improvements over that because the final Mobile Home Act is a compromise.

Senator Taft, you have introduced an amendment, No. 147, which provides a warranty very much along the lines of that which we suggest, and with modification as to the time allotted the manufacturer to adjust the warranty claim and providing for reimbursement for alternative living expenses for an owner who is temporarily required to live elsewhere, I think we would certainly support that amendment strongly.

I would like to make some specific comments at this point on S. 1348 as presently drafted.

With regard to definitions, I believe you should expand them to include mobile homes available for lease as well as those which are for sale.

The definition of mobile home safety standards states that the standards shall be "the minimum practicable standard for mobile home performance which meets the need for mobile home safety."

Requiring the minimum implies the easiest way to get by and not the best or most reasonable, but the minimum.

I question how many of us would like to live in a home constructed to the minimum standards for safety.

Section 1013(d) prohibits the States from enacting more stringent requirements if the Federal Government acted in a particular area.

In Wisconsin we are opposed to this, because we feel we are about to get a very strong piece of legislation on the books. I think certainly the States should be required to match the Federal standards and exceed them if they wish.

One of the representatives from the industry indicated that he understood that S. 1348 does just that, that those States with strong legislation, as Wisconsin will have, and as California does, could continue those fine programs I think he said, and the States which don't have will have to come up to that standard.

Such a change has practical implications, particularly in situations where regional differences in weather may require different needs, as has been discussed, and stronger roof support requirements, for example, are needed in the North.

Section 108 does not include affirmative restrictions in the area of the sale of used mobile homes. These sellers should be required to make an inspection of the home and reveal to the buyer substantial defects that he knows of or should know of, in other words, defects that would at that point in time make this home meet standards below those prescribed by the Federal law.

As the used mobile home seldom carries a warranty, there should be a mechanism to protect the consumer. Liability for damages may be attached to the seller for failure to disclose defects which the seller knew of or should have discovered through reasonable inspection procedures.

S. 1348 refers to ANSI A 119.1, and while my prepared testimony doesn't address this subject, it is a matter we had some experience with in developing our bill.

The situation which the Federal Government faces at this time is very similar to the one we faced in Wisconsin. The industry was very anxious to have a bill passed regulating mobile homes. In fact, it came

before several committees saying we want to point out we were the first, we came and asked the State to pass legislation.

The reason for that was because interstate commerce problems required them to do so.

The State of Minnesota was in a situation where they were about to cease inspection of mobile homes in Wisconsin, and the same is true of the State of Iowa, and that meant that mobile home manufacturers in Wisconsin were going to have difficulty in shipping homes to those States. So it was clear they did want mobile home legislation passed.

They wanted, however, mobile home legislation passed which would leave the standards essentially as they were, industry-set, and essentially the standards that are provided in ANSI A 119.1.

I think it is less than a coincidence that the Secretariat for ANSI is an industry-related association.

What we ultimately did in Wisconsin, as you will see if you look at the bill, was to provide that the department responsible should consider ANSI 119.1, but should adopt other standards and standards which could be more strict than ANSI.

Section 113 concerning the procedure for notification of defects in mobile homes could be strengthened substantially. It allows the manufacturer to describe the defect and evaluate the hazard. Clearly it is in the best economic interest of the manufacturer to downplay the significance of safety-related defects. The manufacturer should be required to make the repairs necessary to remedy the defect at the site of the home in the same manner that automobile manufacturers handle recalls.

Given the natural tendency on the part of most human beings to ignore such a notice, when they realize costly repairs may be necessary, notice alone will not solve the problem. The manufacturer should be required to remedy it.

There are other changes which I feel would improve the bill, and I would like to enter into the record at this time as exhibit II the current compromise mobile home and warranty legislation which we are about to pass in Wisconsin.

I should point out that this is the final compromise bill and now has the support of our State mobile home industry, labor and consumer groups, and it bears in fact the specific endorsement of the Wisconsin Council for Consumer Affairs, and the mobile home industry association. It is not as tough as we would have liked, but at the same time it is tougher than the industry would have liked, and I think it will provide real protections for consumers in Wisconsin. I think there should also be added to S. 1348 a requirement for inspections and specific requirements for unannounced inspections. The committee has already addressed this, so I won't belabor the point.

The finest standards are obviously meaningless without strict enforcement.

In summary, I urge that the regulatory mechanism be expanded to include construction standards in general, in addition to those related solely to safety and affirmative protection remedies be built into it in the form of mandatory warranties, disclosure of used mobile home conditions, and a recall mechanism similar to that which is used in the

automotive industry. State efforts should be encouraged and States should be empowered to enforce more rigid standards.

I believe there is a compelling need for regulation at the Federal level. State activity nationwide has been varied and generally ineffective. While 36 States have adopted the American National Standards Institute Code 119.1 in one form or another, either the current code or one in effect in earlier years, a number of States have no enforcement agency or have failed to fund a designated agency.

It has been estimated that almost 88,000 mobile homes were constructed in 1971 that were not subject to any enforcement or inspection procedures.

I feel very strongly that the Federal Government can and should act in this area. Every effort must be made to insure that mobile homes are constructed according to reasonable standards which guarantee safe, reliable housing for millions of Americans living in mobile homes.

The authors of this bill deserve the highest commendation for their cocern for the needs of mobile homeowners and their familes.

[The prepared statement of Mr. Fosdick follows:]

State of Wisconsin \ COUNCIL FOR CONSUMER AFFAIRS

CHAIRMAN
MARTIN J. SCHREIBER
LIEUTENANT GOVERNOR

DIRECTOR
JAMES R. SCOTT

ASSOCIATE DIRECTOR
PATTI L. NOWAK

16 NORTH CARROLL ST.
MADISON, WISCONSIN
PHONE (608) 266-3104

STATEMENT OF LIEUTENANT GOVERNOR MARTIN J. SCHREIBER OF WISCONSIN
BEFORE THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE U.S. SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE
JULY 24, 1973.

Mr. Chairman and members, it is a pleasure for me to be able to appear before this distinguished committee today.

As Chairman of the Governor's Council for Consumer Affairs, I have been involved in the matter of mobile homes since July of 1972 when our Council identified consumer dissatisfaction with mobile homes as a target area of attention. In the ensuing months, much basic research was conducted by Council members and staff and what we feel is landmark legislation was developed. That bill has since passed the Wisconsin Assembly and is presently pending in the State Senate.

We have, I believe, some insights and experiences which may be useful to this distinguished committee.

There can be no doubt that the manufacture of mobile homes is a rapidly expanding industry in this country. Ninety-five per cent of all new single family dwellings under $15,000 are mobile homes. Six hundred thousand mobile homes were manufactured in 1972 alone.

Often they are the sole housing option available to low income persons desiring a new dwelling. Young families and the elderly make up a large share of the consumer market and mobile homes are particularly popular in those rural areas where housing shortages exist.

As consumer demand has increased, the industry has moved rapidly to fulfill this demand for bigger, more ornate and more complex mobile home structures. Unfortunately, concomitant improvement in the safety and reliability of mobile homes has not been evidenced.

U. S. Senate Bill 1348, presently under consideration by this committee is primarily concerned with remedying the serious problem of safety in mobile homes. It is also important, I believe, to consider the question of the reliability of mobile homes.

Our studies have shown that safety is one component of an overall mood of consumer dissatisfaction with mobile homes. It is important to remember that people who buy mobile homes as their principal dwelling place generally are less affluent than conventional home buyers. Due to the depreciation factor, a mobile home, unlike a conventional home, must be viewed as a consumable item.

Lending institutions treat the mobile home in the same manner that automobiles are financed. After ten to fifteen years, the mobile home depreciates to salvage value and loans for the purchase of a mobile home are set up with this factor in mind. They simply do not appreciate in value or even retain their value as a conventional home does. Yet the mobile home meets the very fundamental human need of providing shelter just as an ordinary home does. When a family is driven from their home as a result of defects in the structure, it is a serious matter.

If the federal government is willing to establish a regulatory system to insure the safety of mobile homes, it is only a small step to also include provisions designed to insure that the home will be reliable and reasonably free from defects.

It has been shown in our studies that the consumer experience with the purchase of a new mobile home is dominated by inadequate warranties, frequent serious defects and painfully slow action on the part of the manufacturer and/or dealer to remedy such defects. In the spring of this year, we surveyed about 200 people living in mobile homes in the Madison, Wisconsin area. Those surveyed were owners of mobile homes which were purchased new, and we questioned them about their experiences during the first year of ownership. Eighty-two per cent encountered defects in their homes during this period. About 50% of those encountering defects either failed to have the defects remedied or they encountered substantial delays in having the repairs made.

The range of complaints about the mobile homes during the first year was broad including defective furnaces, plumbing, poor workmanship, and frequent leaks. Let me give you a sampling of some of the experiences owners had during the first year of ownership in their own words:

- A new home purchased for $13,000 in 1971.
"Paneling peeled off, roof leaked, tile buckled, bath tub leaked, shower didn't work, furnace had to be replaced, water pipes froze. One year warranty which dealer and manufacturer never honored."

-A new home purchased for $6,300 in 1970. "Home full of deceptive veneers, paper disguised as wood, plastic disguised as steel, furniture absolute trash, electric hot water heater good for nothing. No warranty."

-A new home purchased for $6,800 in 1968. "Plumbing defective, finish peeled off walls, bathroom floor fell out as a result of leaking toilet. Ninety day warranty."

-A new home purchased for $10,000 in 1972. "Water faucets leaked continually, water pipes froze everytime temperature got below zero. Wall paneling cracked at seams, front door fell off. No warranty."

-A new home purchased for $8,200 in 1967. "Furnace blew up, wife received second degree burns over head and body. No warranty. Had to bring legal action to get repairs."

These are not unusual. We found repeated occurences of defective plumbing, leaky ceilings, plastic pipes that froze in the winter, walls and ceilings that buckled, and frost forming on interior wall because of inadequate insulation.

If you are going to require the development of construction standards, I urge that you do not confine those standards to safety related matters. Make the Secretary responsible for the development of standards which will insure the construction of safe and reliable housing.

I would also urge that an approach similar to that used in Wisconsin be followed. We required manufacturers to provide a one-year warranty on new mobile homes including their plumbing, heating and electrical systems. Warranty repairs were to be within thirty days of the complaint, at the site of the mobile home. The mandatory warranty makes every mobile home buyer an active participant in the system of insuring sound construction. It builds in self-enforcement through the availability of adequate remedies to the buyer. The thirty day time restriction prevents lengthy delays and insures that owners will not be without shelter for extensive periods of time if the defect renders the mobile home uninhabitable. I would also urge that you make both the manufacturer and dealer jointly responsible for honoring the warranty. Too often we found consumers who were bounced back and forth between the dealer and the manufacturer when they had complaints. It is of critical importance to the mobile home buyer that he have a home which is safe and reliable. As one home owner we surveyed put it, "I didn't expect the Taj Mahal for $7,200.00 but I didn't anticipate worrying from day to day whether I would have shelter for my family."

Let me at this point make some specific comments on S. 1348 as it is presently drafted.

-With regard to the definitions, I believe you should expand them to include mobile homes available for lease as well as those which are for sale.

-The definition of "mobile home safety standard" states that the standard shall be the "minimum practicable standard for mobile home performance which meets the need for mobile home safety." Requiring that the standard be the minimum to me implies the easiest way to get by. Not the best or surest nor even the most reasonable, but the minimum. I ask you, how many of us would like to live in a home constructed with the minimum standards for safety?

-Section 103 (d) prohibits the States from enacting more stringent requirements if the federal government has acted in a particular area. I believe that States should be permitted to enact more stringent requirements if they so desire. They should be required to match the federal standards and exceed them if they wish. Such a change has practical applications in situations where regional differences in weather may require different needs. For example, stronger roof support requirements are needed in the North than in the South because of heavy snow accumulations and the danger of roof collapse.

-Section 108 does not include affirmative restrictions in the area of the sale of used mobile homes. Commercial sellers of used mobile homes should be required to make an inspection of the home and reveal to the buyer

substantial defects which he knows of or should know of. As a used home seldom carries a warranty, there should be some mechanism to protect the consumer. Liability for repairs and damages may be attached to the seller for failure to disclose defects which the seller knew of or should have discovered through reasonable inspection procedures.

-Section 113 concerning the procedure for notification of defects in mobile homes could be strengthened substantially. It allows the manufacturer to describe the defect and evaluate the hazards. Clearly, it is in the best economic interest of the manufacturer to down play the significance of safety related defects. The manufacturer should be required to make the repairs necessary to remedy the defect at the site of the home in the same manner that automobile manufacturers handle recalls. Given the natural tendency on the part of most human beings to ignore such a notice when they realize that costly repairs may be necessary, notice alone will not solve the problem. If the manufacturer created the hazard at the very least he should be required to remedy it.

In summary, I urge that the regulatory mechanism be expanded to include construction standards in general in addition to those which are related solely to safety and that affirmative consumer protection remedies be built in in the form of mandatory warranties,

disclosures of used mobile home conditions, and a recall mechanism similar to that which is used in the automotive industry. State efforts should be encouraged and States should be empowered to enforce more rigid standards.

I believe there is a compelling need for regulation at the federal level. State activity nationwide has been varied and generally ineffective. While thirty-six states have adopted the American National Standards Institute Code 119.1 in one form or another, either the current code or one in effect in earlier years, a number of States have no enforcement agency or have failed to fund a designated agency. It has been estimated that almost 88,000 mobile homes were constructed in 1971 that were not subject to any enforcement or inspection procedures.

I feel very strongly that the federal government can and should act in this area. Every effort must be made to insure that mobile homes are constructed according to reasonable standards which guarantee safe, reliable housing for the millions of Americans living in mobile homes. The authors of this bill deserve the highest commendation for their concern for the needs of mobile home owners and their families.

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EXHIBIT 1

DRAFT MOBILE HOME WARRANTY

1973 STATE OF WISCONSIN LRB-5138/1
PP:ls

AN ACT to renumber 218.10 to 218.12; and to create 218.10 and 218.14 to 218.17 of the statutes, relating to requiring a one-year warranty on new mobile homes, granting rule-making power and providing a penalty.

Analysis by the Legislative Reference Bureau

This proposal requires a one-year written warranty for every new mobile home sold or leased by a manufacturer, dealer or salesperson in this state and for mobile homes sold through persons who induce a Wisconsin resident to enter into the transaction by personal solicitation or by use of telephone or mail solicitation to a Wisconsin customer.

The warranty must include the following terms:

1. That the mobile home meets those standards prescribed by law or administrative rule in effect at the time of manufacture.

2. That the mobile home is free from defects in material and workmanship.

3. That the manufacturer and dealer will take corrective action for defects which become evident within one year from delivery date.

Persons violating these provisions may be fined not more than $10,000 or imprisoned not more than 6 months or both.

For further information, see the appended fiscal note.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. 218.10 to 218.12 of the statutes are renumbered 218.11 to 218.13.

SECTION 2. 218.10 of the statutes is created to read:

218.10 DEFINITIONS. In this subchapter:

(1) "Delivery date" means the date on which a mobile home is physically delivered to the site chosen by the mobile home owner.

(2) "Mobile home" means a vehicle designed to be towed as a single unit or in sections upon a highway by a motor vehicle and equipped and used or intended to be used, primarily for human habitation, with walls of rigid uncollapsible construction, which has an overall length in excess of 45 feet. "Mobile home" includes the mobile home structure, including the plumbing, heating and electrical systems and all appliances and other equipment installed or included therein by the manufacturer or dealer.

(3) "Mobile home dealer" means a person who, for a commission or other thing of value, sells, exchanges, buys or rents, or offers or attempts to negotiate a sale or exchange of an interest in mobile homes or who is engaged wholly or in part in the business of selling mobile homes, whether or not the mobile homes are owned by him, but does not include:

(a) A receiver, trustee, administrator, executor, guardian or other person appointed by or acting under the judgment or order of any court.

(b) Any public officer while performing his official duty.

(c) Any employe of a person enumerated in par. (a) or (b).

(d) Any lender as defined in s. 421.301 (22).

(e) A person transferring a mobile home registered in his own name and used for his personal, family or household purposes, if the

transfer is an occasional sale and is not part of the business of the transferor.

(4) "Mobile home manufacturer" means any person within or without this state who manufactures or assembles mobile homes for sale in this state.

(5) "Mobile home owner" means any person or lessee thereof who purchases a mobile home primarily for use for personal, family or household purposes.

(6) "Mobile home salesperson" means any person who is employed by a mobile home manufacturer or dealer to sell or lease mobile homes.

(7) "New mobile home" means a mobile home which has never been occupied, used or sold for personal or business use.

(8) "Used mobile home" means a mobile home which has previously been occupied, used or sold for personal or business use.

SECTION 3. 218.14 to 218.17 of the statutes are created to read:

218.14 WARRANTY AND DISCLOSURE. (1) A one-year written warranty is required for every new mobile home sold or leased by a mobile home manufacturer, dealer or salesperson in this state, and for every new mobile home sold by any person who induces a resident of the state to enter into the transaction by personal solicitation in this state or by mail or telephone solicitation directed to the particular customer in this state. The warranty shall contain the following terms:

(a) That the mobile home meets those standards prescribed by

law or administrative rule of the department of industry, labor and human relations, which are in effect at the time of its manufacture.

(b) That the mobile home is free from defects in material and workmanship and is reasonably fit for human habitation if it receives reasonable care and maintenance as defined by rule of the department of industry, labor and human relations.

(c) 1. That the mobile home manufacturer and dealer will take corrective action for defects which become evident within one year from the delivery date and as to which the mobile home owner has given notice to the manufacturer or dealer not later than one year and 10 days after the delivery date and at the address set forth in the warranty; and that the mobile home manufacturer and dealer will make the appropriate adjustments, within 30 days after notification of the defect, at the site of the mobile home without charge to the mobile home owner. The owner shall be made whole and any repairs, replacements, substitutions or alterations made shall restore the mobile home to its condition as warranted. If the dealer makes the adjustment, the manufacturer shall fully reimburse the dealer.

2. If a repair, replacement, substitution or alteration is made under the warranty and it is discovered, before or after expiration of the warranty period, that the repair, replacement, substitution or alteration has not restored the mobile home to the condition in which it was warranted, such failure shall be deemed a violation of the warranty and the mobile home shall be restored to the condition in which it was warranted to be at the time of the sale at no cost to the purchaser or his assig[illegible]ng

that the additional repair may occur after the expiration of the warranty period.

(d) That if during any period of time after notification of a defect, the mobile home is uninhabitable, as defined by rule of the department of industry, labor and human relations, that period of time shall not be considered part of the one-year warranty period. The warrantor shall be liable for the cost of substitute housing and reasonable living costs for any period during which the mobile home is uninhabitable as a result of such defects.

(2) Action by a lessee to enforce his rights under this subchapter shall not be grounds for termination of the rental agreement.

(3) The warranty required under this section shall apply to the manufacturer of the mobile home as well as to the dealer who sells or leases the mobile home to the customer, and shall be in addition to any other rights and privileges which the customer may have under any instrument or law. The waiver of any remedies under any law and the waiver, exclusion, modification or limitation of any warranty, express or implied, including the implied warranty of merchantability and fitness for a particular purpose, is expressly prohibited. Any such waiver is unenforceable and void.

(4) The transfer of a mobile home from one owner or lessee to another during the effective period of the warranty does not terminate the warranty, and subsequent owners or lessees shall be entitled to the full protection of the warranty for the duration of the warranty period as if the original owner or lessee had not

transferred the mobile home.

218.15 RESPONSIBILITY FOR REPAIR OF DEFECTS. (1) No sale or lease of a used mobile home by a licensee on an "as is" or "with all faults" basis shall be effective to exclude or modify an implied warranty of merchantability or an implied warranty of fitness, unless the mobile home buyer or lessee signs a separate writing listing specifically all defects which are known or should have been known to the seller or lessor before consummation of the sale or lease, or which would be discoverable by a reasonable inspection. Directly above the customer's signature the following notice shall be printed in at least 12-point boldface type, all capital letters:

"THIS IS A LIST OF KNOWN DEFECTS IN THIS MOBILE HOME YOU ARE ABOUT TO PURCHASE OR LEASE. IF YOU SIGN THIS WRITING, YOU AGREE THAT THE MERCHANT IS NOT RESPONSIBLE FOR REPAIRING THESE DEFECTS."

(2) In the sale or lease of any used mobile home, the sales invoice or lease agreement shall contain the point of manufacture of the used mobile home, the name of the manufacturer and the name and address of the previous owner.

218.16 DEPARTMENTAL RULES. The department of industry, labor and human relations shall promulgate rules and establish standards necessary to carry out the purposes of ss. 218.14 and 218.15.

218.17 PENALTIES. (1) Any person who violates any provision of ss. 218.14 to 218.16, or any rule promulgated under ss. 218.14 to 218.16, may be fined not more than $10,000 or imprisoned for not more than 6 months, or both.

(2) In any court action brought by the department of industry, labor and human relations for violations of this subchapter, the department may recover all costs of testing and investigation, in addition to costs otherwise recoverable, if it prevails in the action.

(3) Nothing in this subchapter prohibits the bringing of a civil action against a mobile home manufacturer, dealer or salesperson by an aggrieved customer. If judgment is rendered for the customer based on an act or omission by the manufacturer, dealer or salesperson, which constituted a violation of this subchapter, the plaintiff shall recover actual and proper attorney's fees in addition to costs otherwise recoverable.

SECTION 4. CROSS REFERENCE CHANGES. Wherever the reference to section "218.10" appears in sections 342.12 (3) (a), 342.18 (4) (a) and 426.202 (3) of the statutes, the reference "218.11" is substituted.

SECTION 5. PROGRAM RESPONSIBILITIES. At the appropriate place in the list of program responsibilities specified for the department of industry, labor and human relations under section 15.221 (intro.) of the statutes, insert reference to "subch. VI of ch. 218".

SECTION 6. EFFECTIVE DATE. This act shall take effect on the 121st day after its publication.

EXHIBIT 2

WISCONSIN MOBILE HOME STANDARDS AND WARRANTY LEGISLATION
FINAL COMPROMISE

1973 STATE OF WISCONSIN LRB-5891/1
PP:pp

ASSEMBLY SUBSTITUTE AMENDMENT 2,

TO 1973 ASSEMBLY BILL 569

June 28, 1973 - Offered by Representatives TROPMAN, OESTREICHER, BERGER and NIEBLER.

AN ACT to repeal 218.12; to renumber 218.10 and 218.11; and to create 101.90 to 101.96, 218.10 and 218.14 to 218.17 of the statutes, relating to licensing of mobile home manufacturers, warranties on new mobile homes, granting rule-making authority and providing a penalty.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. 101.90 to 101.96 of the statutes are created to read:

101.90 PURPOSE. The purpose of this law is to establish uniform construction standards, inspection procedures and licensing of manufacturers of mobile homes and to promote interstate uniformity and the ability to enter into reciprocal agreements with other states and the federal government.

101.91 DEFINITION. In ss. 101.90 to 101.96, "mobile home" has the meaning designated in s. 218.10 (2).

101.92 DEPARTMENTAL POWERS AND DUTIES. The department:

(1) Shall adopt, administer and enforce rules for the safe

and sanitary design and construction of mobile homes manufactured, distributed, sold or offered for sale in this state.

(2) Shall license all manufacturers desiring to sell or distribute for sale mobile homes in this state.

(3) Shall review annually the rules adopted under ss. 101.90 to 101.96, and may revise rules upon recommendation by the advisory committee appointed under s. 101.96.

(4) Shall provide for announced or unannounced inspection of manufacturing facilities, processes, fabrication and assembly of mobile homes to ensure compliance with the rules adopted under ss. 101.90 to 101.96.

(5) Shall establish standards for certification of inspection and testing agencies which shall include standards for in-plant inspection of manufacturing facilities, processes, fabrication and assembly of mobile homes and for issuance of or acceptance of a label of approval.

(6) May enter into reciprocal agreements with other states regarding the design, construction, inspection and labeling of mobile homes where the laws or rules of other states meet the intent of ss. 101.90 to 101.96 and where the laws or rules are actually enforced.

(7) Shall establish within the division of industrial safety and buildings a staff for the administration and enforcement of ss. 101.90 to 101.96.

(8) May revoke the license of any manufacturer who violates any of the provisions of ss. 101.90 to 101.96 or any rules promul-

gated thereunder.

101.93 INTERDEPARTMENTAL POWERS AND DUTIES. (1) The department of health and social services, in counsel with the department, shall adopt rules relating to plumbing in the design and construction of mobile homes. Such rules shall be consistent with s. 101.94 (1) and (2) and shall be reviewed annually.

(2) The department of health and social services, in counsel with the department, shall establish qualification requirements for and shall certify persons to perform inspections of the plumbing systems in mobile homes.

(3) The department of health and social services, at the request of the department of industry, labor and human relations, shall review plans and specifications for approval of plumbing systems in mobile homes.

101.94 MOBILE HOME MANUFACTURERS, DISTRIBUTORS AND DEALERS: DESIGN AND CONSTRUCTION OF MOBILE HOMES. (1) Mobile homes manufactured, distributed, sold or offered for sale in this state shall conform to the code promulgated by the American national standards institute and identified as ANSI 119.1, including all revision thereof in effect upon enactment of this section (1973), and further revisions adopted by the department. The department may establish standards in addition to those required under ANSI 119.1. This section applies to units manufactured or assembled after January 1, 1974.

(2) Each mobile home manufacturer shall submit to the department typical construction plans and specifications for review. The

department shall, by its own inspectors whether inside or outside this state, perform sufficient inspections of manufacturing premises and manufactured units to ensure compliance with this section. The department may contract for inspection services, as provided in sub. (3), for inspections outside this state. Each mobile home, upon final assembly, shall display a label which shall be prescribed by and be available only from the department, or similar agency of other states where units are manufactured, providing reciprocal agreements have been executed and are effective between this state and such other states indicating that the mobile home meets the requirements of ss. 101.90 to 101.96 or the applicable laws of the state with which a reciprocal agreement has been executed. No mobile home which bears such label shall be required by any person to comply with any building, plumbing, heating or electrical code or any construction standards other than those promulgated under this section.

(3) The department shall inspect mobile homes manufactured in other states to be sold or intended to be sold in this state. For such out-of-state inspections, the department may contract for third party inspection by an inspection agency which has been approved by the department. The department shall monitor inspections conducted by third party inspection agencies to ensure the quality of those inspections. To obtain departmental approval, the inspection agency shall submit an application to the department accompanied by written materials evidencing that the agency is:

(a) Not under the jurisdiction or control of any manufacturer

or supplier of the mobile home industry.

(b) Professionally competent to determine that a mobile home is in compliance with the requirements and standards of this section by having sufficient expertise to:

1. Inspect mobile homes.

2. Review mobile home plans and specifications.

3. Evaluate mobile home manufacturer quality control procedures.

4. Submit detailed reports regarding all of its findings to the department.

(4) No mobile home after once being approved to display the label prescribed shall be altered in any way by a manufacturer, factory branch, distributor, distributor branch, dealer or salesman without first obtaining an approval from the department or its authorized agent.

(5) Any person who violates this section shall forfeit not less than $50 nor more than $500 for each such violation, and may be required to indemnify the purchaser for damages caused. Each day the violation continues shall constitute a separate violation.

(6) Fees for review of plans, construction inspections, department labels and licensing of manufacturers shall be established by department rule and shall cover actual cost of the inspection and licensing programs.

(7) The department shall hear and decide petitions brought under ss. 101.90 to 101.96 in the manner provided under s. 101.02 (6) (e) to (i) and (8) for petitions concerning property.

101.95 MOBILE HOME MANUFACTURERS REGULATED. The department shall by rule prescribe the manner by which a manufacturer shall be licensed for the manufacture, distribution or selling of mobile homes in this state.

101.96 ADVISORY COMMITTEE. The department shall appoint an advisory committee of 5 members to review the rules and standards for mobile homes and recommend changes. The committee shall be composed of 2 members representing the mobile home industry, 2 public members and one member from the department. The committee shall submit an annual report to the department and to the department of health and social services.

SECTION 2. 218.10 and 218.11 of the statutes are renumbered 218.11 and 218.12.

SECTION 3. 218.10 of the statutes is created to read:

218.10 DEFINITIONS. In this subchapter:

(1) "Delivery date" means the date on which a mobile home is physically delivered to the site chosen by the mobile home owner.

(2) "Mobile home" means a vehicle designed to be towed as a single unit or in sections upon a highway by a motor vehicle and equipped and used or intended to be used, primarily for human habitation, with walls of rigid uncollapsible construction, which has an overall length in excess of 45 feet. "Mobile home" includes the mobile home structure, including the plumbing, heating and electrical systems and all appliances and all other equipment carrying a manufacturer's warranty.

(3) "Mobile home dealer" means a person who, for a commission

or other thing of value, sells, exchanges, buys or rents, or offers or attempts to negotiate a sale or exchange of an interest in mobile homes or who is engaged wholly or in part in the business of selling mobile homes, whether or not the mobile homes are owned by him, but does not include:

(a) A receiver, trustee, administrator, executor, guardian or other person appointed by or acting under the judgment or order of any court.

(b) Any public officer while performing his official duty.

(c) Any employe of a person enumerated in par. (a) or (b).

(d) Any lender as defined in s. 421.301 (22).

(e) A person transferring a mobile home registered in his own name and used for his personal, family or household purposes, if the transfer is an occasional sale and is not part of the business of the transferor.

(4) "Mobile home manufacturer" means any person within or without this state who manufactures or assembles mobile homes for sale in this state.

(5) "Mobile home owner" means any person or lessee thereof who purchases a mobile home primarily for use for personal, family or household purposes.

(6) "Mobile home salesperson" means any person who is employed by a mobile home manufacturer or dealer to sell or lease mobile homes.

(7) "New mobile home" means a mobile home which has never been occupied, used or sold for personal or business use.

(8) "Used mobile home" means a mobile home which has previously been occupied, used or sold for personal or business use.

SECTION 4. 218.12 of the statutes is repealed.

SECTION 5. 218.14 to 218.17 of the statutes are created to read:

218.14 WARRANTY AND DISCLOSURE. (1) A one-year written warranty is required for every new mobile home sold or leased by a mobile home manufacturer, dealer or salesperson in this state, and for every new mobile home sold by any person who induces a resident of the state to enter into the transaction by personal solicitation in this state or by mail or telephone solicitation directed to the particular customer in this state. The warranty shall contain the following terms:

(a) That the mobile home meets those standards prescribed by law or administrative rule of the department of industry, labor and human relations, which are in effect at the time of its manufacture.

(b) That the mobile home is free from defects in material and workmanship and is reasonably fit for human habitation if it receives reasonable care and maintenance as defined by rule of the department of industry, labor and human relations.

(c) 1. That the mobile home manufacturer and dealer shall take corrective action for defects which become evident within one year from the delivery date and as to which the mobile home owner has given notice to the manufacturer or dealer not later than one year and 10 days after the delivery date and at the address set forth in the warranty; and that the mobile home manufacturer and

dealer shall make the appropriate adjustments and repairs, within 30 days after notification of the defect, at the site of the mobile home without charge to the mobile home owner. If the dealer makes the adjustment, the manufacturer shall fully reimburse the dealer.

2. If a repair, replacement, substitution or alteration is made under the warranty and it is discovered, before or after expiration of the warranty period, that the repair, replacement, substitution or alteration has not restored the mobile home to the condition in which it was warranted except for reasonable wear and tear, such failure shall be deemed a violation of the warranty and the mobile home shall be restored to the condition in which it was warranted to be at the time of the sale except for reasonable wear and tear, at no cost to the purchaser or his assignee notwithstanding that the additional repair may occur after the expiration of the warranty period.

(d) That if during any period of time after notification of a defect, the mobile home is uninhabitable, as defined by rule of the department of industry, labor and human relations, that period of time shall not be considered part of the one-year warranty period.

(e) A list of all parts and equipment not covered by the warranty.

(2) Action by a lessee to enforce his rights under this subchapter shall not be grounds for termination of the rental agreement.

(3) The warranty required under this section shall apply to the manufacturer of the mobile home as well as to the dealer who

sells or leases the mobile home to the customer, and shall be in addition to any other rights and privileges which the customer may have under any instrument or law. The waiver of any remedies under any law and the waiver, exclusion, modification or limitation of any warranty, express or implied, including the implied warranty of merchantability and fitness for a particular purpose, is expressly prohibited. Any such waiver is unenforceable and void.

(4) The transfer of a mobile home from one owner or lessee to another during the effective period of the warranty does not terminate the warranty, and subsequent owners or lessees shall be entitled to the full protection of the warranty for the duration of the warranty period as if the original owner or lessee had not transferred the mobile home.

218.15 SALE OR LEASE OF USED MOBILE HOMES. In the sale or lease of any used mobile home, the sales invoice or lease agreement shall contain the point of manufacture of the used mobile home, the name of the manufacturer and the name and address of the previous owner.

218.16 DEPARTMENTAL RULES. The department of industry, labor and human relations shall promulgate rules and establish standards necessary to carry out the purposes of ss. 218.14 and 218.15.

218.165 JURISDICTION AND VENUE OVER OUT-OF-STATE MANUFACTURERS. (1) The importation of a mobile home for sale in this state by an out-of-state manufacturer is deemed an irrevocable appointment by such out-of-state manufacturer of the secretary of state to be his true and lawful attorney upon whom may be served all legal

processes in any action or proceeding against such manufacturer arising out of the importation of such mobile home into this state.

(2) The secretary of state upon whom processes and notices may be served under this section shall, upon being served with such process or notice, mail a copy by registered mail to the out-of-state manufacturer at the nonresident address given in the papers so served. The original shall be returned with proper certificate of service attached for filing in court as proof of service. The service fee shall be $4 for each defendant so served. The secretary of state shall keep a record of all such processes and notices, which record shall show the day and hour of service.

218.17 PENALTIES. (1) Any person who violates any provision of ss. 218.14 to 218.16, or any rule promulgated under ss. 218.14 to 218.16, may be fined not more than $1,000 or imprisoned for not more than 6 months, or both.

(2) In any court action brought by the department of industry, labor and human relations for violations of this subchapter, the department may recover all costs of testing and investigation, in addition to costs otherwise recoverable, if it prevails in the action.

(3) Nothing in this subchapter prohibits the bringing of a civil action against a mobile home manufacturer, dealer or salesperson by an aggrieved customer. If judgment is rendered for the customer based on an act or omission by the manufacturer, dealer or salesperson, which constituted a violation of this subchapter, the plaintiff shall recover actual and proper attorney's fees in

addition to costs otherwise recoverable.

SECTION 6. CROSS REFERENCE CHANGES. Wherever the reference to section "218.10" appears in sections 342.12 (3) (a), 342.18 (4) (a) and 426.202 (3) of the statutes, the reference "218.11" is substituted.

SECTION 7. PROGRAM RESPONSIBILITIES. (1) In the list of program responsibilities specified for the department of industry, labor and human relations under section 15.221 (intro.) of the statutes, insert reference to "subch. VI of ch. 218".

(2) In the list of program responsibilities specified for the department of health and social services in section 15.191 of the statutes, insert reference to "101.93".

SECTION 8. EFFECTIVE DATE. This act shall take effect on the 121st day after publication.

(End)

Senator PROXMIRE [presiding]. Thank you.

I take it the next witness is Ms. Drury.

Dr. DRURY. I am Margaret Drury from the Urban Institute.

I think the Brock bill shows a great amount of understanding of the problems involved in guaranteeing that the mobile homes produced by industry are safe when they are delivered from the factory.

I basically agree with what is outlined in the bill. However, I do not think the bill goes far enough to adequately protect the consumer.

The bill, as proposed, is focused on establishing national safety and construction standards so that the mobile home unit is safe when the consumer acquires it.

It is at least as important to insure that the consumer is protected while he is living in his unit as it is to assure him that the unit he buys is safe.

Therefore I strongly recommend that you add to the bill protection for consumers once they are residing in mobile homes.

Long-term protection can be provided for the consumer by adding three provisions to the bill. The first is warranties. The bill should require that the manufacturer and dealer are to provide warranties on mobile homes. The manufacturer should issue a 1-year warranty which covers all parts in every new mobile home. California and Wisconsin already require that mobile homes have such a warranty. I also think that manufacturers should be required to issue 5-year warranties on all structural parts; and as well that the manufacturer should be required to be responsible, by warranty, for the safety and related defects of a mobile home for the entire length of its life.

In order to guarantee that the warranties are made good by the manufacturer, even if the manufacturer should go out of business, the manufacturer should be required to hold a bond worth a minimum of one-half of its last year's gross sales.

I would also like to point out that the dealer should be required to give the new mobile homeowner a written, signed certification that the new mobile home, once located on its site, is installed and balanced correctly. The manufacturer should be held responsible for the installation done by the dealer who is in essence the manufacturer's agent. This would serve as a remedy for another problem in the industry, dealer-manufacturer runaround.

Many consumers wait weeks for repairs to be made while a manufacturer and dealer argue about who is responsible for the repairs. Without such a certification, a warranty would be meaningless, because often poor site installation can cause many structural problems in a mobile home.

For example, a mobile home is normally propped up on cinderblocks when it is installed; if it is not leveled correctly, the doors may not stay closed, the walls may separate from the ceiling, cabinets may come off the walls, the roof may leak, or the plumbing may not work.

Special protection in the bill should be given the many consumers who buy a warranted mobile home from a dealer who also provides them with park space. This protection will allow mobile home residents to request compliance with the warranty without having to fear being evicted from their park space.

Second, repair service responsibility.

The bill should require repair service responsibilities on the part of the manufacturer. There is a dearth of mobile home servicemen

because there are few manufacturers who offer specialized training in the repair and maintenance of mobile homes.

Mobile home manufacturer authorized repair service companies have been slow to develop across the country either through sales dealers or other firms. Few, if any, mobile home manufacturers currently have a written franchise or even a legal contract with mobile home dealers which sets out clearly the service responsibilities of both parties.

There is also no requirement that dealers and manufacturers keep an inventory of parts for current or older units. When mobile homeowners don't have either the skills or materials needed to perform repair and maintenance services themselves, they are often unable to buy repair and maintenance services in the area where they live.

In this respect, the consumer with a defective mobile home is far worse off than the owners of a car that is a "lemon." For with a defective car one can at least find mechanics at service centers who have had manufacturer authorized training. Not only is the consumer with the defective mobile home frustrated because of lack of service, he literally has to live with his problem night and day. One can do without a car for several days while it is being repaired, but it is difficult to do without housing.

Sometimes mobile homeowners default on their financial commitments for their unit and just move away out of pure frustration over not being able to get their unit fixed.

Presently, there are no comprehensive service systems in existence for mobile homes which can be called upon to inspect used mobile homes, to warn the owner or renter about problems which appear to be developing, and to suggest what needs to be done to prevent the onset of more serious problems.

I think that dealers have not properly educated their customers in the past about the preventative maintenance necessary on mobile homes because they are entirely oriented to making sales and have not had or wanted a service responsibility.

Throughout the history of the industry, dealers have come into and gone out of business very easily without responsibilities to either the manufacturer or the consumer. I think that the mobile home industry has now matured and grown into a permanent American institution and that by now they should have taken responsibility for consumer service.

Since manufacturer-authorized repair service has not developed after 25 years of a strong industry growth, I do not think it will develop on its own.

In view of this situation, I think you should take the initiative in this bill to set up a certification system for mobile home repair and maintenance services.

Service dealers should be awarded certification based on Federal guidelines for the training and experience of their employees and on their past record of ethical consumer practices.

The new legislation should offer an incentive mechanism as well as official certification to aid in the formation of comprehensive repair and maintenance service dealers in States or regions which have a large stock of mobile homes in use.

Again, requiring an ongoing legal contract between dealers and manufacturers which sets out each of their responsibilities for servicing will better assure that the consumer is served.

Third, consumer education and intervention. The manufacturers are right, consumers are very uneducated about the things they need to know. They tend to be interested only in floor plans and they don't ask about maintenance. When they buy a unit, they don't know that the roof has to be cold sealed every 2 years to keep the roof from leaking. They don't know what is really required for installation, tiedowns, and things like that.

I think that the Brock bill should also provide for an educational component which can make information available to consumers.

It is very frustrating when a consumer has complaints and doesn't know where to take them. When consumers have complained to their dealers and manufacturers to no avail, they often don't know where to go for help. If there were an intervention mechanism within HUD, consumers would have a place that they could turn to, an official place, so they would feel they were being served.

So in summary, I would like to repeat, I think that your bill, Senator Brock, is a real step forward in assuring that new mobile homes are safe. However, I do not feel the bill goes far enough. It needs to be strengthened to protect the mobile home resident during the life of the unit. The bill should be amended to include three things: warranties for safety and construction, repair service responsibility on the part of manufacturers and dealers, and consumer education and intervention on the part of the proposed bureau.

Thank you and the members of the committee for listening to my comments on the proposed legislation.

[The complete statement of Dr. Drury follows:]

THE TESTIMONY OF DR. MARGARET J. DRURY OF THE URBAN INSTITUTE BEFORE THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS OF THE SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE ON JULY 24, 1973

Mr. Chairman, my name is Margaret J. Drury. I am on the senior research staff of the Housing Studies Group at The Urban Institute, a non-profit organization here in Washington. I would like to point out from the beginning that I am not here to represent the The Urban Institute or any other organization; my views are entirely my own. I hold a Masters and a Ph.D. degree in Housing from Cornell University. I first started doing research on mobile homes in 1965 while conducting a study of the institutional factors contributing to the growth of the mobile home industry for my masters thesis. I have written several reports on mobile homes; the most resent is titled, Mobile Homes: The Unrecognized Revolution in American Housing and was published by Praeger in 1972.

I have worked at The Urban Institute for four years. The research I have been doing there is focused on finding ways to improve apartment residents' satisfaction with the housing services they receive by improving housing services like heat, maintenance, repairs and security, and by improving the quality of management.

Thank you for inviting me to come to testify to this committee on Senator Brock's bill. I hope that my knowledge of mobile homes and of the needs of housing consumers will be helpful to this committee.

The Broc' bill shows a great amount of understanding of the problems involved in guaranteeing that the mobile homes which are produced by the industry are safe when they are delivered from the factory. A great amount of effort has been exerted in developing the bill. I think that Senator Brock and the other senators who sponsored the bill should be commended for their concern, efforts, and foresight. Establishing a Bureau within the Department of Housing and Urban Development which can issue guidelines for states to use in establishing in-factory safety inspections of mobile home units is a good idea which has long needed to be implemented. The Bureau will also serve a valuable and much needed function of initiating new research on mobile homes for establishing safety and construction standards. The Bureau's record keeping function will also be valuable since presently the only information on mobile homes and mobile home residents comes either from the mobile home industry or every ten years from the U.S. Census. I basically agree with everything outlined in Senator Brock's bill though there are a number of words and phrases which I think need to be clarified and modified; I indicate them specifically in my written appendix. However, I do not think the bill goes far enough in adequately protecting the consumer. The bill, as proposed, is focused on establishing national safety and construction standards so that the mobile home unit is safe when the consumer acquires it. It is at least as important to insure that the consumer is protected while he is living in his unit as it is to assure him that the unit he buys is safe. Therefore I strongly recommend that you add to the bill protection for consumers once they are residing in mobile homes. Long term protection can be provided for the consumer by adding three provisions to the bill.

First--Warranties. The bill should require that the manufacturer and dealer are to provide warranties on mobile homes. The manufacturer should issue a one-year warranty which covers all parts in every new mobile home. California and Wisconsin already require that mobile homes have such a warranty. I also think that manufacturers should be required to issue 5-year warranties on all structural parts; and as well that the manufacturer should be required to be responsible, by warranty, for the safety and related defects of a mobile home for the entire length of its life.

In order to guarantee that the warranties are made good by the manufacturer, even if the manufacturer should go out of business, the manufacturer should be required to hold a bond worth a minimum of one half of its last year's gross sales. I would also like to point out that the dealer should be required to give the new mobile homeowner a written, signed certification that the new mobile home, once located on its site, is installed and balanced correctly. The manufacturer should be held responsible for the installation done by the dealer who is in essence, the manufacturer's agent. This would serve as a remedy for another problem in the industry, dealer-manufacturer runaround. Many consumers wait weeks for repairs to be made while a manufacturer and dealer argue about who is responsible for the repairs. Without such a certification, a warranty would be meaningless, because often poor site installation can cause many structural problems in a mobile home. For example, a mobile home is normally propped up on

cinder blocks when it is installed; if it is not leveled correctly the doors may not stay closed, the walls may separate from the ceiling, cabinets may come off the walls, the roof may leak, or the plumbing may not work. Special protection in the bill should be given the many consumers who buy a warranted mobile home from a dealer who also provides them with park space. This protection will allow mobile home residents to request compliance with the warranty without having to fear being evicted from their park space.

Second--Repair Service Responsibility. The bill should require repair service responsibilities on the part of the manufacturer. There is a dearth of mobile home servicemen because there are few manufacturers who offer specialized training in the repair and maintenance of mobile homes. Mobile home manufacturer authorized repair service companies have been slow to develop across the country either through sales dealers or other firms. Few, if any, mobile home manufacturers currently have a written franchise or even a legal contract with mobile home dealers which sets out the service responsibilities of both parties. There is also no requirement that dealers and manufacturers keep an inventory of parts for current or older units. When mobile homeowners don't have either the skills or materials needed to perform repair and maintenance services themselves, they are often unable to buy repair and maintenance services in the area where they live.

In this respect, the consumer with a defective mobile home is far worse off than the owner of a car that is a "lemon." For with a defective car one can at least find mechanics at service centers who have had manufacturer authorized training. Not only is the consumer with the defective mobile home frustrated because of lack of service, he literally has to live with his problem night and day. One can do without a car for several days while it is being repaired but it is difficult to do without housing. Sometimes mobile homeowners default on their financial commitments for their unit and just move away out of pure frustration over not being able to get their unit fixed. Presently, there are no comprehensive service systems in existence for mobile homes which can be called upon to inspect used mobile homes and warn the owner or renter about problems which appear to be developing and suggest what needs to be done to prevent the onset of more serious problems.

I think that dealers have not properly educated their customers in the past about the preventative maintenance necessary on mobile homes because they are entirely oriented to making sales and have not had nor wanted a service responsibility. Throughout the history of the industry, dealers have come into and gone out of business very easily without responsibilities to either the manufacturer or the consumer. I think that the mobile home industry has now matured and grown into a permanent American institution and that by now they should have taken responsibility for consumer service. Since manufacturer authorized repair service has not developed after twenty-five years of a strong

industry growth, I do not think it will develop on its own. In view of this situation, I think you should take the initiative in this bill to set up a certification system for mobile home repair and maintenance services. Service dealers should be awarded certification based on federal guidelines for the training and experience of their employees and on their past record of ethical consumer practices. The new legislation should offer an incentive mechanism as well as official certification to aid in the formation of comprehensive repair and maintenance service dealers in states or regions which have a large stock of mobile homes in use. Again, requiring an ongoing legal contract between dealers and manufacturers which sets out each of their responsibilities for servicing, will better assure that the consumer is served.

Third--Consumer Education and Intervention. Many problems which consumers have with mobile home maintenance and repair are the result of their lack of access to the proper information. Most of the repair manuals furnished by mobile home manufacturers are not only incomplete in their coverage of the working of appliances, systems and materials in the units, but they also fail to give proper guidelines for the normal preventative maintenance that is required during the lifetime of their unit. Preventative maintenance has often been overlooked by consumers simply because they are unaware it is necessary. Residents have tended to wait until a problem has occurred and then attempted to repair it. But with mobile homes, once a problem like a leaking roof has occurred, it is often a downhill battle, because

other building systems are quickly affected and a great number of other irreversible problems seem to occur shortly after the first problems are discovered.

The limitations of manufacturer provided manuals, coupled with the lack of authorized repair and maintenance service dealers have made it difficult for mobile homeowners to identify and thoroughly understand their responsibilities for keeping the mobile home unit in a state of repair which will prevent future problems. Therefore, a mechanism is needed in the bill which can be used, not only to educate mobile home residents about how to repair their units properly, but will insure that they understand the role that preventative maintenance plays in insuring that their units continue to be safe throughout the time they are living in them. Senator Brock's bill should require the manufacturer to supply explicit written repair and maintenance information to the consumer at the time of sale. For example, wiring diagrams, proper blocking and leveling set-up, tie down information, how to clean the furnace, how to cool-seal the roof, etc. I also think the consumer needs another place to turn in addition to the manufacturer for this information. Therefore, the Bureau proposed in the bill should have a consumer education component. This component of the Bureau should provide information and advise to consumers about what to look for when buying a mobile home, and what to do to properly maintain it.

In order to assist mobile homeowners who are getting dealer-manufacturer runaround when the owner is trying to get them to take action on a complaint, the Bureau should have an intervention

component to which the mobile homeowner can turn for help before he resorts to costly court action.

Thank you Mr. Chairman and members of the committee for listening to my thoughts about the proposed legislation. Again, I want to especially thank Senator Brock for the effort he has put into writing this bill. It is a real step forward for more than six million Americans living in mobile homes. I am honored to have been asked to appear here today. Thank you.

Margaret J. Drury
July 24, 1973

APPENDIX
PART I

In my statement to the Committee, I pointed out that data on mobile home consumers and the extent of their problems either by states or for the country as a whole does not exist. However, looking through some studies which do exist either on individual mobile homeowners' experiences or on comparisons of a number of owners' problems has produced some backup information which may be of interest to the Committee.

An Owens-Corning Fiberglas Corporation study in four northern cities (Flint, Michigan; Harrisburg, Pennsylvania; Lincoln, Nebraska; and Columbus, Ohio) and four southern cities (Asheville, North Carolina; Little Rock, Arkansas; Atlanta, Georgia; and San Antonio, Texas) of 1,280 owners of relatively new mobile homes was done in 1970.

Maintenance seemed to be a problem for about half of the owners. Response time of dealers to fixing the initial maintenance problems seemed to be a persistent complaint.

> Although 44 percent of the owners reported their homes to have been delivered in excellent or very good condition, and another 34 percent said theirs had been delivered in good or fair condition, 51 percent said they had had maintenance problems right after moving into the new mobile home. Most often, the problems were with plumbing (38 percent) and with furnace/heating (25 percent). In more than half of the cases it took more than a week to get the problem fixed. Seventeen percent said it took more than a month to get the problem fixed and another 17 percent said the problem still had not been taken care of at the time of the interview.[1]

A mobile home resident who has resided in a mobile home for over two years has written about his views of mobile home living:

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[1]"The Mobile Home Owner and the Home He Lives In," Urban Land, Volume 29, No. 8, September 1970, p. 6.

> Our principal troubles stemmed from inability to obtain good service. Although our mobile home was not an expensive one, its price was the typical one for the year in which it was purchased. Most mobile homes require some kind of servicing from time to time. There is a definite need for more and better equipped, as well as better distributed, service centers than are presently available. Training programs for servicemen would also improve the situation.[2]

Obtaining numbers on mobile home dealers is difficult. One estimate of dealers by a dealers association was that there are around 11,000 dealers. Yet, 800 dealers account for about 65 percent of all mobile home sales. There is no estimate of the percentage of the almost 14,000 mobile home parks in this country which are owned and operated by dealers who only sell mobile homes to be used in their own parks. There is also no indication about how many dealers offer repair and maintenance service, or how many dealers are trained or certified by the manufacturers whose units they sell.

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[2]Stephen E. Andrachek, "Two Years and Eight Months in a Mobile Home: A Personal Case Study," in Housing Crisis and Response: The Place of Mobile Homes in American Life, eds. Earl W. Morris and Margaret Woods (Ithaca, New York, Department of Consumer Economics and Public Policy, Cornell University, 1970, pp. 27 - 32.

Margaret J. Drury
July 24, 1973

APPENDIX

PART II

Since time did not permit that I could cover all of my remarks about the Brock bill in my verbal statement to the Committee, I am attaching the rest of my comments in this written appendix. These comments are divided into two parts. First, general co ents and second specific notes on deletions and clarification of words in the bill.

Title I of The Brock Bill emphasizes "safety" standards, but never explicitly states whether these "safety" standards include construction standards. The bill definitely should be strengthened to include construction standards. It does not cost a great deal more to add 2-by-4's to interior walls so that when there is a fire or heavy wind th residents would not have the roof caving in on them before they escape.

The bill also needs to be clarified as to whether it intends that all mobile homes will have safety and construction standards or just those whose loans are guaranteed by the Federal Government. There have only been 15,000 mobile home loans guaranteed by the Federal Government since the federal loan guarantee program for mobile homes began. This is primarily because it takes so much time to get an application approved. Most potential mobile home buyers are in need of immediate housing and cannot wait for the paperwork to go through. The great majority of new buyers get other financing through the mobile home dealer.

Section 102(6). "Mobile home" is defined in such a way that it is distinguished from a travel trailer or recreational vehicle on the smallest side, but it is not distinguished from a modular unit on the largest side.

The crucial difference between modular units and larger mobile home multi-wide units seems to be wheels. This should be clarified or it will cause trouble.

Section 103(c) and (g). Establishing a specified date for establighing new safety and construction standards is very important and the Brock Bill wisely provides for this. I think it is important to make sure that new research is conducted independent of the industry on its affiliates and that the new standards are based on the finding of that research. It would be too easy and certainly not wise as far as consumer safety goes to simply adopt the standards already established by the American National Standards Institute for the Mobile Home Industry. The reason for making this very clear in the bill is that their standards were developed through a long histroy of compromise in the industry and are very poor minimums at best.

Section 103(d). States should have minimum safety and construction standards t at are not lower than the federal standard, but I do not think the Brock Bill should limit states from having minimum standards which are higher than the federal standard. Considering the increased standards needed because of hurricanes in the south eastern states and the heavy snows in the northern states, I think that state standards for safety and construction should be allowed to vary upward from the federal standards to take weather conditions into consideration.

Section 103(f)(4). The issue is not "whether any standard will place an undue financial burden upon manufacturers and distributors of mobile homes" because they ultimately pass increased prices on to the consumer. The issue is, can new standards make mobile homes safer than they are now for the people who will be living in them without increasing the retail

price so much that consumers in the same income brackets cannot afford them. The distributor of new mobile home units has been profiting very well considering the high percentage he realizes over the wholesale price of the mobile home he sells, and the very limited service he supplies to the customer in return. I think that distributors could stand to have their cut reduced by 20 percent without having an undue financial burden placed on them. If manufacturers changed their marketing practices and developed more sophisticated marketing and management skills they could absorb 10 percent increase in cost without being hurt or raising the wholesale price of units.

If new buyers were not required or coerced by the distributor to buy seven years of insurance at one time when they purchase their unit and thus have to finance this insurance, they could pay about $600 more for a better quality and safer unit in the first place. Insurance would cost less over the lifetime of a safer, better constructed unit anyway, and there is no reason why the consumer could not buy insurance on a yearly basis.

Section 104(a). It should be made very clear who constitutes "the general public" so no one who directly or indirectly has interests in the mobile home industry should be considered. I think this Council should be limited to twelve members, having six persons representing the general public, three persons representing government and three persons representing industry.

Section 106(a)(1). The Secretary should collect data from existing sources and conduct original research for the purpose of determining the relationship between mobile home performance characteristics for safety and construction as defined by the Secretary. In addition to accidents and deaths, it could also include (C.) maintenance and (D.) durability.

Section 106(a)(2). This should include: use of existing mobile homes for research and testing purposes; and developing experimental models for developing and testing new standards. New standards which are developed ought to be tested in experimental models before they are implemented.

Section 107, Lines 8, 9, 10, and 11 should be omitted. These are not government agencies and are too closely connected to the mobile home industry to be entirely "objective." The word private agencies is enough. It does not seem fair to mention too particular agencies.

Section 108(4)(d). More exacting guidelines need to be stated for state inspection of used mobile homes. States should be encouraged to inspect a used mobile homes every year, for example. Or they should require resale inspection as part of the legal transfer. No matter what the exact guidelines are, the Secretary should try to encourage consistency across states, so that standards will be fairly uniform.

Section 109(a)(b). The maximum civil penalty for mobile home manufacturers suggested in the Brock Bill is far too low. It should be five times that amount for each violation. A series of violations should have a maximum penalty of at least one million dollars and a time limit of a year should be placed on the maximum for a series of penalties so that no one manufacturer can reach the maximum and then consider itself able to do anything without fear of penalty. The mobile home manufacturer should be required to have a bond to insure that he pays for these violations.

Section III (a)(b). The section on noncompliance with standards as it is set up now only deals with protecting the distributor or dealer when the manufacturer sells him a mobile home unit which is determined not to conform to standards, or contains a defect which relates to mobile safety. It does not protect the consumer who has bought a mobile home which

does not conform to standards or contains a defect which relates to safety. The bill does not give the Secretary authority to order the mobile home manufacturer to repair or recall, at the manufacturer's expense, mobile homes which have been found to not comply with the standards or contains a defect which relates to mobile home safety. The bill should contain this authority.

Section 113. It is not enough to simply notify the mobile home owner of a defect, the manufacturer should be required to send out an authorized serviceman to repair the defect, and if the defect cannot be fixed, then the mobile home should be replaced at the manufacturer's expense.

Section 115. Add the following to the bill on Line 13. The Assistant Secretary in charge of the Bureau shall be responsible for developing guidelines for states to follow in setting up local agencies, as well as offering guidance and assistance to state agencies. The Assistant Secretary shall be responsible for doing studies to evaluate the progress made by the state agencies.

Section 119(a)(1). A statistical compilation of the number of repairs and recalls authorized and the number of complaints handled by the Bureau should also be kept.

Following is a list of words that are vague and indefinite which I think need to be strengthened and/or defined more precisely in the bill.

Page No.	Line	Present Words	Suggested Change
II	6	substantial increase	15 percent increase or more
II	8	practical	vague; omit
2	17	substantial	vague; define in terms of both seriousness and cost
3	12	unreasonable risk	vague and arbitrary; define more precisely
3	14	unreasonable risk	vague and arbitrary; define more precisely
4	7	appropriate	vague; omit
4	10	objective terms	vague; define more precisely
5	15	consider relevant	add; consider all relevant
5	16	results of the research	add; results of the new research
10	15	making grants	add; making grants and contracts
11	13	testing to	add; testing new or used mobile homes to
18	8	dealer and	add; dealer or consumer and
19	8,9	reasonable diligence	vague; define in terms of days, suggest 10 working days
19	13	dealer	add; or consumer
29	13	satisfactory assurance	vague; define more precisely
29	14	adequate funds	vague; define more precisely
32	22	objective criteria	vague; define more precisely

Senator PROXMIRE. Let me ask Dr. Fosdick, in what way does the Wisconsin law fail to be as tough as you would like it to be?

Senator Brock said this morning that he wants a good strong law and I agree with him. And we wouldn't want a law that would be so strong that conformity would not be clear. In other words, we don't want a situation where we discourage something that would protect mobile home buyers and owners.

Mr. FOSDICK. Well, a couple of things.

First of all, I think in our original draft of the bill, we did not in fact make reference to ANSI. We would, given our experience with our department of industry, labor, and human relations——

Senator PROXMIRE. You are talking about the American National Standards Institute?

Mr. FOSDICK. That is right.

We would probably prefer that the department examine the mobile home problem and develop its own code, as it has with other building codes, because we felt this might very well be a better code than the one developed by ANSI.

The second thing was raised by one of the other witnesses and that is with regard to bonding.

Our original proposal included bonding to cover potential claims should the manufacturer collapse, and also to guarantee any fines ultimately assessed against the manufacturer, and that was negotiated out of the compromise.

The other changes that were made were not as important to us.

Senator PROXMIRE. Then will you indicate in what way the Wisconsin law is stronger than S. 1348?

Mr. FOSDICK. Well, I think it is stronger, for one, because it has a very strong warranty provision. It is stronger, secondly, because it provides for revocation of the license of the manufacturer to sell mobile homes in the State of Wisconsin, which is a very strong kind of action that the State could take.

And I think that the manner in which the standards are to be developed will ultimately be stronger, because we specifically refer in the Wisconsin law to the department developing standards in addition to those contained in ANSI A 119.1.

Senator PROXMIRE. Were you here this morning when the North Carolina experts testified?

Mr. FOSDICK. Yes.

Senator PROXMIRE. Do you require the same kind of inspection in Wisconsin, and the inspection would not be, I take it, with written notice in advance?

Mr. FOSDICK. We require the inspection, and there is no written notice and in fact we specify unannounced inspections in the language of the law.

A second thing we do in that regard is tighten up third-party regulation. We recognize that particularly with regard to mobile homes that are manufactured in other States for sale in Wisconsin there may be third parties. And we have provided for unannounced inspections by State inspectors of those third-party covered plants.

Senator PROXMIRE. Did the Wisconsin law cover problems other than safety problems? Does it cover quality and so on?

Mr. FOSDICK. It is really directed at construction standards. We include therein problems of fire and other hazards to safety. But it is directed at construction standards as a general term.

Senator PROXMIRE. So it would not be limited to safety considerations?

Mr. FOSDICK. No.

Senator PROXMIRE. And who pays the cost of the inspection?

Mr. FOSDICK. The manufacturer. In fact, the program that will be set up in Wisconsin with passage of this law is totally funded by program revenue, with no general purpose State revenue appropriation.

Senator PROXMIRE. What is the likelihood of the bill which I understand passed the Senate passing the State assembly?

Mr. FOSDICK. It has passed the assembly and is currently in the Senate.

Senator PROXMIRE. I beg your pardon. That is a tougher problem then. The Senate might be a little tougher.

Mr. FOSDICK. Yes, except we have bipartisan support for the measure. The indicator we have is that when the bill came over from the assembly, the majority leader of the Senate, who is of the opposition party, asked that the matter be laid on the table as, in essence, a special order of business, which means that as soon as they have passed the budget, they can take it up, rather than waiting for the normal calendar to come up.

Senator PROXMIRE. When would it be expected to pass?

Mr. FOSDICK. The budget was supposed to pass last Friday. If it passes today or tomorrow, it should pass within the next 3 or 4 days.

Senator PROXMIRE. Good.

I have just one question for Ms. Drury. What is the makeup of the American National Standards Institute?

Some have charged that this is an industry-dominated body. What are your views?

Ms. MCDONNELL. I think I have worked a little more closely with that than Ms. Drury.

There is a rather ambiguous way of setting up the ANSI Committee. It actually started as a committee that was set up by the National Fire Protection Association in 1937 and——

Senator PROXMIRE. 1937?

Ms. MCDONNELL. 1937, yes. But the industry did not become interested in this committee and its code until the early 1960's.

Many of the national associations of plumbers, mechanics, and so forth have been on that committee since 1937. About half of the committee represents industry, manufacturers, suppliers; and there are also several insurance companies, several State officials, State enforcement officials, and one representative of HUD. Then there are two consumer representatives.

The problem with the committee that we have seen in reviewing the minutes of these meetings is that most of the people who attend these meetings are the industry representatives. The committee has a terrible problem getting the two consumers there, principally because the consumers, unlike industry representatives, don't have the financial resources.

Senator PROXMIRE. Would it be fair or unfair to say it is industry dominated?

Ms. McDonnell. I think it would be fair to say it is industry dominated.

Senator Proxmire. S. 1348 requires consultation with that organization, but says nothing about other groups, such as the Center for Auto Safety.

Do you think this approach will lead to effective standards?

Ms. McDonnell. No. I mentioned that in the testimony. I object to that because we think there are weak sections of the ANSI code which must be upgraded. ANSI is not likely to be critical of its own product. Many sources other than ANSI should be consulted in the development of a national code. Several of the experts we talked to, fire experts, people working on tiedown regulations, and so forth, have been very critical of certain sections of the ANSI regulation.

In our opinion, the present bill places far too much emphasis on input from the ANSI Committee.

Senator Proxmire. Mrs. Drury, have you proposed specific amendments to provide for greater education of mobile-home buyers that we could use to modify the language? It is interesting that you suggested that here is one group that has not had experience in many cases, first-home buyers. And this is different from a permanent home, which most people have lived in before.

So it is something that does require at least some rudimentary limited training. Do you have specific proposals?

Dr. Drury. Yes. They are in the written testimony. When the manufacturers issue manuals on mobile homes when you buy a unit, the manuals are very limited. These manuals do not have detailed electrical wiring charts; for example, if you call an electrician, he is hesitant to come because he does not feel that this is his normal place of work—he is afraid that if he cuts through a wall at a certain place, he will hit pipes or wires he did not expect. The mobile home is not a normal kind of a home; and without an electrical wiring plan, the electrician is hesitant to work on it.

I think that there should be very detailed material in the manuals about things like the plumbing system, how to clean the furnace, how to cold-seal the roof, how to close in underneath—skirt the unit, how to save on heat, for example.

You see, the new mobile-home owner, about half of them, are young marrieds, and this is their first home. This is a new experience for them. They are beginning to learn; this is their first experience with maintenance. They are apprentices in homeownership. They will eventually use their mobile home experience and become owners of conventional homes. They want to do things right in their mobile home; they have good intentions. It is just very hard for them to find out what to do. There is no place they can go to get free advice, really. The dealer is in the business to sell units, not in the business to service them.

One of the things I think is important is there should be some way—I know in rural areas through Agricultural Extension you get a lot of free information—but there should be some way that any mobile-home owner could get some one to come out to his unit and say, "Look, these seem to be the places you will have trouble in the next 2 years; these are the things you should do to prevent them." Because mobile-home units are built using different methods and different materials than

conventional construction, these residents need this special assistance. If you treat mobile-home units well, the units might last for 15 years. But if you do not know what to do to maintain them, they won't last half as long. The real problem, I think, is the problem of understanding how important preventative maintenance is on mobile homes. The first time you get a leak in the roof then you have an avalanche of serious problems that follow.

You saw in the film that the entire floor of a mobile-home unit is often rolled out in one sheet. If there is a leak in the kitchen, it can spread to the living room, and the floor may warp throughout the whole unit. Because you often have this avalanche of maintenance problems, it is very hard to stop a series of problems once they occur. But, if the consumer knows in advance the things which might happen, or what to do to keep them from happening, I think the units would last longer and be of greater service to the consumer.

Senator PROXMIRE. Senator Brock.

Senator BROCK. I have been fascinated by some of the testimony. First, I wish to apologize for having to leave some time earlier to testify before the Senate Appropriations Committee. You have raised some valid points of concern, and I would like to consider them. I do not recall in the 10 years I have been here that I have ever introduced perfect legislation at the outset. I think I can speak for 100 Senators in that regard. We all have some pride of authorship, but also recognize there are a lot of improvements that can be made, and the purpose of the hearing is to try to achieve the improvements before we enact the statute. Some of your suggestions are valid and will be seriously considered by the committee.

There are a couple of points that maybe should be mentioned. First of all, we do try in the bill, and maybe it is not adequate, to make provision for the educational factor, and do require a good deal more information than is currently available in most cases with regard to specifications and related elements.

Secondly, with regard to the inspection program in Wisconsin that was mentioned in questioning of Mr. Fosdick, you charge the manufacturer $25, and my bill provided for a Federal inspection to be paid for by the Government, of course. If the State operates out under section 120, having met all of the required criteria, then we have a provision for sharing 90 percent of the development costs with the State as they design their own program of inspection and implementation.

So perhaps we are comparing apples and oranges. I am not sure that the $25 manufacturers' fee would be applicable under my bill, but, rather, what I am saying is, it is going to become a Federal responsibility to insure that the consumer gets a quality product that is safe and that he can live in, in security and comfort.

There are no particular questions I have of this panel. I was not present when the group testified from North Carolina, and I was unable to respond to their inquiries. I gather they are not here now. Is that true?

A VOICE FROM THE AUDIENCE. They just left, Senator.

Senator PROMXIRE. Mr. Bono is still here, I believe.

Senator BROCK. Mr. Bono, you will have to suffer some abuse then. I suffered some in absentia. But I would like to respond to some of the points raised in the paper presented. I think it represents——

Senator PROXMIRE. Would you like, Senator Brock, to have Mr. Bono come forward?

Senator BROCK. Yes, if he wants to come forward and reply to my critique of his testimony.

Mr. BONO. Maybe I should first point out that I was put on the panel with two gentlemen from North Carolina, but I am from Underwriters Laboratories, and my association with the State of North Carolina is as one of the independent third-party agencies.

Senator BROCK. It is a contractual relationship, as I gather. You are the contractor in terms of inspection?

Mr. BONO. We were designated and accredited by the State, yes.

Senator BROCK. Then I will not be so harsh in my criticism of you. But I think the testimony as presented, as I read it—as I said, I did not hear it—is misleading at best. It represents at least a misunderstanding of the clear language of the bill and perhaps worse, a somewhat demagogic approach to it.

Let me read you some statements. They say the bill, if enacted, would circumvent North Carolina's inspection program which has led the way in fairness in protecting the public. And they point out that this is documented by the fact that North Carolina's program has been duplicated in other States.

That has nothing to do with the statement, and the statement is ridiculous on its face, and is false. What we are trying to do is to pass Federal legislation that would be at least as tough, if not tougher, than North Carolina's but, in no way, reduce the implementation of the North Carolina program.

"In its place, the Senate bill 1348 would allow mobile home manufacturers to self-certify that their homes would meet Federal standards."

I assume they are referring to section 114. They failed to read section 103 and section 112 and section 120. There is no self-certification in this bill, nor will there be in any future bill we get out.

They say it is not in the public interest; it does not provide for approval of plans by a regulatory agency. That is garbage. They did not read section 112, 120 A, B, and C, where we clearly establish and require approval by a regulatory agency.

If the State opts out, the State agency has to meet the Federal agency standards. In either case, it is a governmental agency that is created by law.

"Two, there is no requirement for factory inspections to see that construction standards are being met."

They did not read section 120 (c) and (b) because that section is rather clear and rather specific in not only allowing but requiring factory inspection, either by the Federal Government, if there is no State inspection, or if the State again opts out under 120, then the inspection must be met up to the Federal standards.

We would allow, incidentally, a continuation of the contractual relationship with U.L., provided that the contract met the Federal standards. That would have to be approved by the regulatory authority established under HUD. They say there is no requirement that the State must have competent personnel. Well, that is just not so. I might just read you the relevant section on that, section 120(c)(4), and the provisions as it "contains satisfactory assurance that such agency has

or will have the legal authority and qualified personnel necessary for enforcement of such standards."

That is rather clear and specific. If you want to add a word or two, I would be delighted. But I think it is somewhat deleterious to the legislation I have proposed to have testimony which is not factual and not based upon clear legislative language as stated.

The whole thrust of our approach here is to pass legislation that does what the States have not done, with one or two exceptions. And that is, in order to have good total comprehensive 50-State safety standards for the people who buy mobile homes, wherever they happen to live and from whomever they happen to buy. We are trying to deal with what I call the "shade-tree" manufacturer that exists in some communities, that puts a stigma on the whole industry by producing a lousy product, with inadequate wiring, no fire egress or ingress. That is the problem we have to deal with, and it is no furtherance of that objective to come in with testimony that is not founded on fact or an intelligent understanding of the bill as written.

So, without any criticism of you, Mr. Bono, you may pass that on to your colleagues and I would be delighted for them to respond and their response will be considered a matter of public record and we will have it printed in full and, if they can document or change any of the language to improve it, despite my temporary irritation with this, I would be more than delighted to have constructive suggestions for improvements and I hope that will be part of the record as well.

If you want to add anything, you have a full right to do so.

Mr. Bono. Thank you, Senator.

In the interest of public safety. Underwriters Laboratory has served in many roles and I guess in this case we will serve as a messenger for your comments to the State of North Carolina.

I do think, sir, that the intention of the gentlemen, despite the harsh and perhaps vague language in some instances in their testimony—and I have not read it—the intention in talking about "self-certification" probably has to do with that phase which we normally call the initial engineering investigation, rather than the followup inspection.

We have two distinct activities in the whole process of regulating mobile homes, and the concern was that your bill depends upon a self-certification by the manufacturer, solely for this engineering investigation phase, not the followup inspection. I believe the followup inspection is very clearly stated in the bill.

Senator Brock. Well, perhaps we are engaged in a semantic misunderstanding rather than a qualitative or substantive disagreement, because it is my intent with the factory inspection, which goes from its first 2 by 4 coming in the door at the front end until it comes out as the finished product that the process be subject to inspection.

The mobile home manufacturers have taken the lead in this particular area, they have asked for national standards and they have said they would be more than delighted to have this kind of inspection in an engineering sense as well as in a final output sense or inspection if you will, if you want to call it that. And I think it is important to note the cooperative attitude that the really fine manufacturers have adopted in this area.

I think they have been saying, look, we do not benefit by the fly-by-night outfits, either, we do not benefit by being impugned by the ac-

tivities of a shade-tree operator in some backlot in some State in nearby Maryland, perhaps, obviously not in Tennessee. I think what we are saying is we all are in agreement that we need Federal standards, and they must be not only firm and adequate, but they must be thoroughly enforced, with full provisions for enforcing inspection rights from the start.

And if we do that, we have gone a long way toward reducing the problem.

Mr. BONO. Yes, I heartily agree with both of those statements, Senator, with respect to the needs for enforcement, and certainly with the statement that manufacturers as a whole have cooperated a great deal in asking for that form of legislation.

During my testimony, I pointed out that Underwriters Laboratories has established an inspection service in 226 mobile home plants. Many of those plants produce mobile homes for shipment into areas where there is no requirement for regulation.

These manufacturers have voluntarily asked for an independent third-party audit in their plant.

Senator BROCK. I think that demonstrates an integrity on their part that is not only forthcoming but is very important to all of us.

I have one question for Mr. Fosdick, and I think it is something we talked about several times, but the chairman asked me to ask you, on the question of Federal preemption of State law has been raised several times this morning and he would like, as would I, your view on the matter. Should State law prevail over Federal or should there be a single standard?

I have my own answer that I have previously stated, but I would like yours.

Mr. FOSDICK. I think I recognize some of the problems that would result from developments of a Federal minimum, or floor, and then allowing the States to have stronger standards.

At the same time, I think the effects of the alternative are to the advantage of the Federal Government and to the people of the country as a whole. What would happen if the Federal Government passed a law, setting certain minimum standards and then permitted the States to develop more stringent standards, there would be an impetus for stronger and stronger standards in the industry.

For example, if Wisconsin has a stronger standard than the Federal minimum, there would be some inclination on the part of some manufacturers in Minnesota, for example, to build to Wisconsin standards, and they will have both Federal certification and certification for sale in Wisconsin.

So we feel a stronger standard would be advantageous. It would also permit States to explore stronger standards that might subsequently be adopted by HUD.

So, I think we are in favor of it.

Senator BROCK. As a longtime advocate of States rights and responsibilities, I am sympathetic with what you say. I think there are a couple of problems I see and one is the fact that the standard for Wisconsin, obviously would be different from the standard for Florida.

You do not have any roof load to carry in terms of snow in Florida. So that might pose some difficulty. I am not quite sure that I have an ultimate answer to the question. My own personal feeling is that we

should write a bill that is adequate to the need of the 50 States and that means that we might write a bill that is tougher than the Wisconsin law.

Mr. FOSDICK. That would be fine with us.

Senator BROCK. But I do not think it would bother the manufacturers that much, as long as they had one standard to build by.

You run into very high manufacturing costs when you have to change the design of the product for each market.

Frankly, I think it is in the interest of the consumer to have one standard that is so good that it would be perfectly adequate to Wisconsin, perhaps a little more than adequate for Florida, but in total terms you have something that is adequate for all.

Mr. FOSDICK. I think it is worth noting in that regard that the manufacturers are currently building to more than one standard in some States. Some States have what is referred to as "dumping legislation," which permits the manufacturers in that State to build to one standard for sale of mobile homes in that particular State and to another standard for manufacture of homes that are going to be sold in another State. So, for example, Iowa builds, that is, some of their manufacturers build, homes to one standard for sale in Iowa and to another standard for sale in Wisconsin. One of the provisions of the Wisconsin law is that homes manufactured or sold in the State are subject to the standards, so that we are not going to be exporting, hopefully, any substandard homes either.

Ms. MCDONNELL. I wanted to make a comment, Senator Brock.

I do not think that having this diversity of standards would be as difficult for the manufacturers to comply with as has been implied today. There are 800 plants, 800 mobile home plants and most of them do not ship their homes any more than 250 miles from the factory to the dealer. I think you find, even with large manufacturers, who have many plants around the country, that individual plants are fairly autonomous. They have different models that they produce although often the difference between models is just a difference in floor plans. I think diverse State standards might be easier to implement than has been suggested, since there is so much diversity and localization of the industry itself.

Senator BROCK. I can understand that. But I see the problem as a little different. Let us look at a manufacturer with eight plants in say eight regions of the country, all manufactured under one brand name.

Ms. MCDONNELL. That would be hard to find, I think.

Senator BROCK. As the industry grows, I think that it is quite possible, as a matter of fact, predictable that you will have manufacturers in these circumstances. It is not today, but it will get more so. Now, if that manufacturer is building a unit to one standard in Tennessee and another in Nebraska, another in Wisconsin, another in Florida, what happens when his Wisconsin purchaser, to take an extreme example, sells his unit in Wisconsin and goes to Florida and says:

> Say, you have given me a shoddy product down here, it is not the same unit as I bought in Wisconsin, it is made to entirely different standards. I have not got enough structural support in the roof, I do not like that. You know, all kinds of things. It looks to me like you are just asking for trouble.

Ms. McDonnell. Supposedly, the Federal standard would establish satisfactory minimums for such things as the structural strength of the roof and so forth. Also I doubt that the consumer would be aware that the roof of his Florida home is not as strong as the one he left in Wisconsin.

Senator Brock. I think we underestimate the sophistication of some consumers. There are some that will come drooling all over your back if you have not done a decent job and I don't blame them. I think it is a matter of some debate. It is just something that is of interest to me. I have not quite resolved in my own mind—I would tend to think that I would rather see tougher national legislation that goes somewhat above the minimum standards that you objected to in a heck of a lot of States in order to have more uniformity and a guarantee that wherever a person buys his home, wherever he happens to take it and wherever he happens to buy a second one, he has some confidence that he is buying a product that he can live with.

We will debate that in the committee process. I do not have any further questions.

We will conclude this session. The Subcommittee on Housing will recess until Friday at 10 a.m. and the full committee wil convene tomorrow morning at 10 a.m.

We thank you very much for your testimony.

[Whereupon, at 1:25 p.m. the subcommittee adjourned until Friday, July 27, 1973.]

1973 HOUSING AND URBAN DEVELOPMENT LEGISLATION

FRIDAY, JULY 27, 1973

U.S. SENATE,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met at 10:15 a.m., pursuant to call, in room 5302, Dirksen Senate Office Building, Senator John Sparkman, chairman of the subcommittee, presiding.

Present: Senators Sparkman, Cranston, Stevenson, and Brock.

The CHAIRMAN. Let the committee come to order, please. We have quite a long schedule today, so we will move right along on it. Our first witness this morning is our colleague on this committee, the Honorable William E. Brock, Senator from Tennessee. Senator Brock, we are very glad to have you. And may I say for the benefit of Senator Cranston and other members of the committee, we promised to really put him on the griddle. He does it, as you know.

Senator CRANSTON. All right, I have some good tough questions.

Senator BROCK. I will be delighted to be put on the griddle for this, Mr. Chairman. With your permission I will submit a full statement for the record.

The CHAIRMAN. Very well.

[The complete statement follows as though read:]

STATEMENT OF BILL BROCK, U.S. SENATOR FROM THE STATE OF TENNESSEE

Senator BROCK. Mr. Chairman, thank you for the opportunity to discuss S. 1604, my bill the "Fair Housing Opportunity Act" to prevent discrimination on the basis of sex in housing by amending the 1968 Fair Housing Act. S. 1604 is a companion measure to my bill originally introduced as S. 1605 and incorporated as title III of S. 2101 which passed this week.

A number of cases have come to my attention in which a wife's income has not counted toward purchase of a home. In other cases, a woman's income has not been counted toward home improvement loans. I have even seen examples where a family could not rent a suitable dwelling, because the wife was the chief wage earner, for example, and the husband was in school.

In addition, difficulties in the mortgage lending area, women do face a problem with regard to access to housing. This legislation is needed not only to assure that women have access to mortgage credit, but that women are not subtly denied opportunities to purchase homes or rent

dwellings. For example, a real estate agent knowing that a creditworthy woman will face difficulty in obtaining a mortgage on account of her sex will tend not to view women as viable potential customers and will discourage an active search for a home purchase.

In the area of rentals, the denial of access has been more evident. There has often been an informal practice of failure to rent to single women (and single men, for that matter) on the basis of assumptions about their reliability in performance of their duties under their leases.

Five years ago when the Fair Housing Act was passed, what problems that were recognized in this area were seen as individual rather than systematic. In the years since the passage of the act, it has become increasingly evident that prohibition against discrimination on account of sex should have been included in the act, and I now seek to remedy this omission. For example, the Department of Housing and Urban Development's (HUD) Fair Housing Office took an informal survey during several months of 1971 and the early part of 1972. This study from June 28, 1971, through February 22, 1972, included a total of 709 calls. As HUD has pointed out this is by no means a complete study because letters alleging this type of discrimination have also been received at the central office, and both letters and telephone calls are also received at HUD's regional and area offices. (See appendix A.)

Recognizing these problems, a number of States now have provisions similar to the one I am proposing in their laws prohibiting discrimination in housing on account of sex. These States include Alaska, Colorado, Deleware, Hawaii, Idaho, Indiana, Maryland, Illinois, Massachusetts, New Jersey, New Mexico, New York, Pennsylvania and South Dakota.

DISCRIMINATION IN MORTGAGE LENDING

While the line of distinction between denial of access to housing and denial of mortgage credit is a subtle one, the two types of discrimination serve to reinforce one another. Let me turn to some of the cases that have come to my attention. In testimony before the National Commission on Consumer Finance, we particularly noted that single women have trouble obtaining mortgage credit. A variety of lender prejudices have resulted in single women traditionally being unable to obtain mortgages to buy real estate. Lenders have gone to such lengths as to worry that single women could not perform the necessary repairs to maintain a property. Yet, how many otherwise creditworthy single men, when applying for a home loan, have ever been questioned about their carpentry, plumbing, or electrical ability? The assumption that men could perform these tasks while women could not is just the sort of discrimination based on sex that we are talking about. A judgment based on the ability of the applicant of either sex to pay for necessary maintenance would be much more to the point, but women are frequently denied even the most cursory examination of their means.

This exchange between a bank and potential customer is typical:

Saturday morning, August 28, I spoke to a loan officer, Mr. Frank Cash, about obtaining a home mortgage loan. He gave me the current interest rate along with closing costs, etc., and he inquired about my husband. I told Mr. Cash that I had no husband. He then informed me that home loans were not granted to single persons without a co-signer. I told him that a co-signer was not necessary as my income was sufficient to cover the loan I was asking for. He told me this was a re-

quirement of the "loan committee" and there was no loan available to me as a single person without a co-signer.

I find it very difficult to believe that I was denied a loan with absolutely no information about my ability to pay. Mr. Cash didn't ask me my age, about my work record, my salary—nothing at all pertinent to the credit information needed to obtain a loan. I was turned down solely because I am a single woman. This is an assumption on my part. I am now asking you, formally to supply me with the reason I was denied credit by your bank.

After sending this letter to the bank, the woman received a form letter from the bank's president which said:

In conducting any well-organized business today, situations may arise due to the possible absence of complete information.

Please feel free to visit my office personally, at your convenience, should you feel further discussion is in order.

When the woman called the President for an appointment, he told her that a personal visit really was not necessary as it was a "policy" of the loan committee and there "really wasn't anything more he could tell her." As far as I can determine, single males have not encountered any such refusals, at least to determine whether or not they might be eligible for credit.

On the other hand, mortgages may be granted if a male cosignature is obtainable no matter what the financial status of the male may be. The Wall Street Journal reported that a woman in her forties who, as head of her household, wanted to buy a house for herself and her children could not get a mortgage without the signature of her 70-year-old father, who was living on a pension. There is no evidence that single men in like situations have been required to obtain cosigners.

The failure to grant mortgage credit affects not only women as a group, but families as well.

For medium-income couples seeking mortgages, the failure to count the wife's income means that many couples who would otherwise qualify are denied the benefits of homeownership. Mortgage lenders tend to discount the income of married women who are regularly employed.

In testimony before the Commission on Consumer Finance and in press reports, a lender's "rule of thumb" has been outlined. In recent marriages—less than 5 years—or when the wife has been working only a short time, no recognition is given to the wife's income. With young married couples, no matter what their background, the wife's income is not recognized. If the wife is classified as a "professional" and is between the ages of 26 and 35, a lender may give half credit to her income. If she is over 35 years of age, it is customary to give full credit. If the wife is in a nonprofessional occupation, usually no allowance is made for her income up to age 35, half allowance between ages 35 and 42, and full credit beyond that age.

These customs in relation to wives' incomes seem to be motivated by the presumption that women are likely to become pregnant, and if they do, that they will necessarily terminate employment. The specter of pregnancy has governed much of the reactions of the banking industry in connection with counting a wife's income. In testimony before the Commission on Consumer Finance, Sharyn Campbell, an attorney representing the Women's Legal Defense Fund, presented evidence that banks have required letters from doctors or affidavits

concerning birth control methods employed, or doctors' letters attesting to sterility, worse yet, in one case a couple was asked to assure that the wife would have an abortion before her income would be able to be counted.

I regard inquiries along these lines a serious invasion of personal privacy, and yet, in the past, couples needing loans have had little choice. On the other hand, I have heard no evidence presented showing that married couples tend to default on their loans when the wife bears children.

Family planning is a widely recognized concept in our modern society, and even when women do become pregnant there are many to whom motherhood and employment are not mutually exclusive. As a matter of fact, the lower- and middle-income families most need to count the wife's income in order to enjoy the tax advantages and benefits in community stability and community identification associated with homeownership. In this sector of the society, according to Labor Department statistics, married women are much more likely to continue working, yet it is these families that are hurt most by the idea that motherhood will terminate employment. Moreover, increasingly many women are working out of preference after the birth of their children. Today, more than 30 percent of the married women with children under 6 work.

Although in the past, pregnancy was often a reason women dropped out of the labor force, indications are that increasing numbers of women are choosing to combine motherhood with outside employment. In recognition of this fact, the EEOC guidelines issued under the equal employment opportunity law required that childbirth be treated as any other temporary disability, from the employer's standpoint. Thus women will not necessarily be faced with loss of job due to pregnancy should they need or wish to continue working.

In reviewing the question of equal access to mortgage lending and to housing, it has been brought to my attention that the several Federal agencies responsible for enforcement of the Fair Housing Amendments of 1968 have not been clear about their authority to extend the coverage of these provisions to prohibit discrimination in the basis of sex. The Fair Housing Amendments of 1968 prohibit discrimination in the sale and mortgage lending on the basis of race, color, religion, or national origin, but not on the basis of sex. For example, the Federal Deposit Insurance Corporation held hearings on the issue in December and has not yet reached a resolution of the question.

I have received letters of support for this legislation from some of the agencies and organizations involved. In a letter of June 22, the Federal National Mortgate Association stated:

> The Federal National Mortgage Association has long followed the policy that invidious discrimination in the availability of housing or housing finance on the basis of any immaterial consideration is to be avoided. Among immaterial considerations, of course, is the consideration of sex. We therefore have no problem at all with, and fully support S. 1604, which adds sex as a proscribed basis of discrimination under Title VIII and IX of the 1968 Civil Rights Act. We likewise have no problem with, and fully support, S. 1605 insofar as it would prohibit discrimination on account of sex in the granting of consumer credit.

In addition, some agencies have taken steps to end discriminatory policies. This week the Veteran's Association announced a new policy of counting wive's incomes in full in mortgage loans.

While it is my view that sufficient legal authority is probably available to the agencies to prohibit discrimination on the basis of sex, the amendment I offer here should remove any remaining doubt on this question. In testimony before hearings on this issue held by the FDIC in December 1972, Mathew Hale, general counsel for the American Bankers Association, argued convincingly that if Congress wished to insure that discrimination based on sex in these areas were prohibited, that Congress should legislate specifically in these areas. I seek here to remedy this legislative oversight by the proposed amendment which adds prohibition against discrimination on the basis of sex to the provisions of the 1968 Fair Housing Amendments.

TELEPHONE COMPLAINTS AND INQUIRIES BY WOMEN TO HUD'S FAIR HOUSING OFFICE

Subject of call	I.—District of Columbia area and long distance calls received on HUD "hotline" (special toll-free line for fair housing complaints) June 28, 1971 through Feb. 22, 1972	II.—Calls received from District of Columbia area women on regular HUD office telephone (not part of "hotline" campaign) Aug. 10, 1971 through Feb. 22, 1972
Discrimination because of sex	[1] 8	[2] 8
Discrimination because of marital status	[3] 35	[4] 8
Discrimination against children (including limitations on children of same sex sleeping in same room)	[5] 48	[6] 11
Discrimination agains welfare recipients	[7] 13	5
Age discrimination (primarily against those under 21)	18	5
Economic discrimination (including insufficient income, poor credit rating, etc.)	15	6
Discrimination against students	7	4
Discrimination because of pets	5	4
General information and assistance	124	9
General complaints (including evictions; rent increases; minority lease problems; being over income for public housing; other)	188	35
Valid complaints under the Federal Fair Housing Law (title VIII, 1968 Civil Rights Act)	116	40
Total	577	132
Grand total of "hotline" and regular calls	709	

[1] Includes: 1 complaint of discrimination because of sex plus age and marital status; 1 complaint of discrimination because of sex plus age; 2 complaints of discrimination because of sex plus marital status (note that sex discrimination was given as the major complaint in each case).

[2] Includes: 1 complaint of discrimination because of sex plus marital status (sex discrimination was given as primary problem).

[3] Includes: 5 complaints of discrimination because of marital status plus children; 1 complaint of discrimination because of marital status plus possession of pet; 1 inquiry about discrimination because of marital status and age (note that marital status was given as the major complaint or problem in each case).

[4] Includes: 1 complaint of discrimination because of marital status plus welfare status; 1 complaint of discrimination because of marital status plus possession of pet (marital status was given as major problem).

[5] Includes: 1 complaint of discrimination because of children plus marital status; 4 complaints of discrimination because of children plus welfare status (note that children were given as the major problem in each case).

[6] Includes: 1 complaint of discrimination because of children plus income problems (children were given as primary reason).

[7] Includes: 1 complaint of discrimination because of welfare status plus marital status (welfare status was given as primary problem).

Note: Not all callers could be identified by sex from HUD records—callers who didn't leave names. Also note that most calls were from individual women, though some came from both couples.

Senator BROCK. I am testifying on behalf of my bill, S. 1604, which relates to discrimination against women with regard to housing, mortgage credit, and the like. And in effect, it is a companion bill to S. 1605, which was incorporated in the recently passed bill that was, I think, unanimously adopted by this committee, and——

The CHAIRMAN. Adopted by unanimous vote, and passed the Senate by unanimous vote.

Senator BROCK. That is what I meant.

The CHAIRMAN. You know, we had two bills within the last 2 days passed unanimously. You are aware of that, I am sure.

Senator BROCK. That shows the quality of the legislative output of the Banking, Housing and Urban Affairs Committee, Mr. Chairman.

The CHAIRMAN. You may remember that last year we passed that big housing bill with just one opposing vote.

Senator BROCK. I remember that very well. If I can briefly summarize what we are trying to do is to deal with discrimination on the basis of sex in housing by amending the 1968 Fair Housing Act. And last year when I served on the National Committee on Consumer Credit, we had a number of cases, both before and subsequently, in which a wife's income was not counted toward the purchase of a home, or a woman's income has not been counted toward home improvement loans. I have even seen examples where a family could not rent a siutable dwelling, because the wife was the chief wage earner, for example, and the husband was in school.

In addition, difficulties in the mortgage lending area, women do face a problem with regard to access to housing. We have so many situations. For example, a real estate agent, knowing that a creditworthy woman will face difficulty in obtaining a mortgage on account of her sex, will tend not to view women as viable potential customers and will discourage an active search for a home purchase.

In the area of rentals, the denial of access has been more evident. There has often been an informal practice of failure to rent to single women on the basis of assumptions about their reliability in performance of their duties under their leases.

Five years ago when the Fair Housing Act was passed, what problems that were recognized in this area were seen as individual rather than systematic. In the years since the passage of the act, it has become increasingly evident that prohibition against discrimination on account of sex should have been included in the act, and I now seek to remedy this omission. The bill we have before us is very similar to provisions of law made by a number of States, such as Alaska, Colorado, Delaware, Hawaii, Idaho, Indiana, Maryland, Illinois, Massachusetts, New Jersey, New Mexico, New York, Pennsylvania, and South Dakota. Those are the ones I know of that have laws prohibiting the discrimination on account of sex in housing.

Now, in essence, that is the sum and substance of the bill. It is a very simple amendment, but it does have other comprehensive effects, and I would hope that in the next available opportunity of this committee, that this matter will be considered and the amendment will be incorporated in the basic housing legislation that was voted out of this committee, at our earliest opportunity. And I think that is sufficient summary, Mr. Chairman.

If you have any questions, I would be delighted to respond.

The CHAIRMAN. I feel, certainly, we will have no difficulty with this, because the Senate passed the other one, the committee passed it out. Of course, it is just a part of another bill.

Senator BROCK. That is right.

The CHAIRMAN. But I am very glad that you brought this up, and I will certainly be glad to support it. Senator Cranston?

Senator CRANSTON. The Senator's eloquent and forceful presentation answered all the tough questions I had. [Laughter.]

The CHAIRMAN. By the way, you referred to testimony before the Consumer Credit Commission. We had testimony before this committee, you know.

Senator BROCK. That is right.

Senator SPARKMAN. Along the same line.

Senator BROCK. I appreciate your pointing that out, because the problem is a continuing problem and I might say that if it appears that housing legislation is going to be somewhat delayed in being brought forth by the committee, I would hope that perhaps we could report this out as a separate bill, if necessary. Because I think the problem is sufficiently noteworthy and important to be deat with, and at our earliest convenience. I know I have the support from the Senator from California on this, and similar measures. The Senator from Alabama has well-stated his concern.

The CHAIRMAN. I would be in favor of pushing it right through to get it on the calendar and pass it.

Senator BROCK. I appreciate it, Mr. Chairman, and your support.

Senator CRANSTON. I cosponsor it, and I——

Senator BROCK. I should have mentioned that. I am sorry.

Senator CRANSTON. Very fine bill.

Senator BROCK. Thank you very much.

The CHAIRMAN. The next witness on the list is delayed and will not be here for a time, so we will call Mr. Charles Noon, director of Neighborhood Development, Department of Housing and Community Development, Baltimore, Md. We are very glad to have you, Mr. Noon. We have your prepared statement. It will be printed in the record. You may proceed as you see fit.

STATEMENT OF CHARLES NOON, DIRECTOR OF NEIGHBORHOOD DEVELOPMENT, DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT, BALTIMORE, MD.; ACCOMPANIED BY ROGER WINDSOR, DIRECTOR OF THE HOMEOWNERSHIP PROGRAMS

[The complete statement of Mr. Noon may be found at p. 1243.]

Mr. NOON. Thank you, Senator. I have with me Roger Windsor, director of the homeownership program in Baltimore. And I wanted to thank you and the members of the Subcommittee on Housing and Urban Affairs of the Senate Banking, Housing and Urban Affairs Committee for the opportunity to testify on behalf of Senate bill 971, the Home Preservation Act of 1973.

Baltimore is a city composed of many neighborhoods with fine, well-kept homes and strong community ties. It is of vital importance to the city's future that we preserve these neighborhoods and prevent them from suffering the deterioration experienced by so many other urban areas. This goal is desirable both for the welfare of the residents of those areas who have most of their life's savings invested in their homes and for the health of the city, which depends on the taxes from these areas to survive. A minimal investment now of time and money could prevent the major expenditure that will be necessary if we permit blight to spread unabated.

In Baltimore there are approximately 210,000 residential structures and two-thirds of these were built prior to World War II. Some 116,000 of them exist beyond the central metropolitan core of the city.

Now of these residential structures, approximately 128,000 of them are owner-occupied, and surprisingly enough—or maybe not so surprising today—1 of every 5 owners is elderly. Most Baltimore neighborhoods contain substantially good residential structures marked by isolated substandard properties. In many cases such properties are in substandard condition either because the owners do not have access to rehabilitation loan funds at terms compatible with their income, or that the loan funds available at conventional rates and terms do not provide a sufficient incentive for owners to rehabilitate housing—particularly vacant structures—in the city.

We feel strongly that the maintenance by owner-occupants of older homes throughout the city has become a crucial factor in the quality of housing, the value of property, and the stability of neighborhoods in our city.

While Baltimore traditionally has availed itself of all Federal programs to cope with this problem, we also recognize our responsibility to develop and apply our own solutions.

We were the first major American city to develop a housing code and to pioneer the use of housing courts and housing clinics as effective tools for maintaining urban neighborhoods.

As a part of our citywide enforcement program, we have initiated a system of patrol inspections to identify and check incipient blight.

Our homeownership development program, also unique within the Nation, the program of which Roger is the director, has been established to attract new owners into the city, to assist the transformation of tenants into homeowners, and to encourage private investment in the rehabilitation of older homes.

We have our own residential environmental assistance loan program financed by city revenues to further spur property rehabilitation. We originally designed this program to supplement the section 115 grant and section 312 loan program by providing rehabilitation loans for areas not falling within the Federal designation for rehabilitation loans and grants.

Our efforts to control the problem of abandoned houses in Baltimore can be gaged by the results of our yearly vacant house survey, which monitors the number of vacant houses in the city.

In fact, Dr. George Sternlieb of the Center for Urban Social Science Research of Rutgers University has said that Baltimore is probably coming to grips with this situation better than most cities, and that this survey provides "harder" data than most cities can provide.

We in Baltimore have a little over 5,000 vacant homes, and this figure, he says, compares favorably with the totals listed in my statement from other cities.

We are not here talking about something we are not familiar with. Sternlieb said that people today are looking to Baltimore for leadership in the solution of problems in housing. We feel that the care and maintenance of residential structures and neighborhoods is a broad and vital problem area. We firmly believe that the Home Preservation Act of 1973 offers opportunities for solutions to people and property problems not heretofore available.

We recommend some minor changes to the bill, but we wholeheartedly support its enactment. Its major thrust and spirit addresses and helps to correct many of the contemporary problems in this area.

Title I allows FHA insurance to be used to obtain refinancing necessary to stretch out existing mortgages, and in this manner provide money for home repairs without increasing the property owner's monthly housing expense.

In Baltimore City during the past fiscal year, over 14,000 violation notices were issued in an outer city inspection program and already in over 10,000 of these cases the notices have been abated. We mean what we are doing. We realized that it was causing a financial impact in many cases, and we set up a special hardship committee to review some of these. And already, although we have not gone through some 2,500 still remaining, we have isolated 141 instances where the effects were so serious that enforcement of the notices has been suspended. In those cases, because we are trying to find tools to assist these people, we have stayed housing court enforcement.

Based on this experience, we feel that assistance such as that offered by this title will be necessary for many homeowners to accomplish the interior and exterior home maintenance that is essential to the stability of their neighborhoods and community as a whole.

We noted with interest, however, in section 101 of this bill, the language proposed for section 244(g) of the National Housing Act:

> In carrying out his functions under this section, the Secretary shall use his best efforts to enlist the support and cooperation of State and local governments in establishing and maintaining programs * * *

We feel that consultation and coordination by the Secretary with concerned State and local governments and/or agencies should be a prerequisite to the implementation of any programs to be established under this section. Such prior consultation and coordination we believe is essential to the full and effective utilization of the authority contained in this bill.

Title II is specifically designed to assist the elderly or handicapped homeowner. In Baltimore, as we stated earlier, 1 out of 5 homeowners is elderly. Forty-two percent of the elderly homeowners in Baltimore City represent households with a total income below $4,000 a year. This represents over 10,000 households.

Further, it is estimated that almost 9 percent of all elderly Baltimore homeowners occupy deficient housing, that is, structures in deteriorated or dilapidated condition.

Consideration of their problems should also recognize that the burden of home repairs and maintenance, property taxes, and illness is much more significant for them than it is for the rest of the population. So we would really welcome the type of assistance being proposed.

In section 201(d)2, we advocate a broadening of the powers of the Secretary to include the authority under certain circumstances to waive all or a percentage of the created lien, because we feel this flexibility would be both valuable and justified in view of the possible downward fluctuation, over a period of several years, in the market value of the improvements made to a property. There may be a downward trend on some of these houses, and if you have a lien against an elderly homeowner, in 5 years the lien could still be $4,000,

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yet the property value could have deteriorated because the market conditions changed. And if the Secretary does not have the ability to reduce or waive this lien, we might even cause more trouble for the homeowner.

We consider the periodic payment assistance provision of title III a welcome new and direct approach to the problem of mortgage defaults. Unchecked this is going to go on until the Nation is going to be in very serious shape.

We endorse the repair and improvement loans provision, because our experience indicates that title I FHA rehabilitation loans are generally unavailable in Baltimore at this time. We understand that there are many reasons for this; however, it is our belief that these could be best explained by representatives of the lending industry and thus we would not speak to this matter.

Section 403 under title IV makes provision for the possible transfer to mortgagees of the processing of mortgage insurance applications. We favor this because our experience indicates that there lies within the mortgage lending industry substantial expertise that the existing procedure requires to be duplicated at Federal expense. Perhaps with proper monitoring, such transfer would permit reduction of these costs, while at the same time eliminating the processing delays which have been a serious longstanding objection to Federal housing programs. And any reduction of processing time could tend to curtail losses which result from vandalism occurring during the period of delayed processing.

We have not attempted to address in detail all the provisions of this bill, but rather to share our reasons for endorsing its enactment based on our experience of the housing situation in Baltimore city. That is where we must speak. There we are experts. We urge you to strengthen the provisions relating to the relationship between the Secretary of Housing and Urban Development and those State and local agencies concerned, because we feel that the utilization of these new resources can be further enhanced if consultation and cooperation between the Secretary and those city and State agencies can be accomplished both prior to and during the implementation of flexible and coordinated programs.

There are some technical revisions that probably would be necessary, but the people in Baltimore, our staff in Baltimore would be glad to work with any of the people on your staff to help on this. We thank you very much.

The CHAIRMAN. Thank you, Mr. Noon. That is a very encouraging statement on the things that you are doing in Baltimore, and it seems you are setting a good pattern for the country.

Has the city developed any particular program to educate or consult with homeowners to enable them to get adequate rehabilitation?

Mr. NOON. Yes, sir, as part of our own city loan program, we are providing the same assistance we gave under the 312 Federal program—financial advisers, housing estimators, even what we call specialists. They are housing specialists working in our inspection force consulting with tenants and homeowners and Roger can speak to that.

Mr. WINDSOR. What we are doing through our program we feel is unique, because we are providing counseling services and advice to persons who are either homeowners today or persons who are inter-

ested in becoming homeowners in the city. We are working with them not only in the acquisition phase of the house, but also working with them with rehabilitation. We have available to us as part of the Department Mr. Noon's staff. We also are coordinating in many instances, the relationship between the homeowner, the contractor, and the inspectional personnel of the Department. I might point out that we feel that one of the most significant features of the bill is the provision of rehabilitation funds because that has been one of the major problems in Baltimore, the availability of rehabilitation financing.

The significance of a house that is in a deteriorating condition goes far beyond the walls of that house, because of the lending practices that generally prevail, I believe, in most areas of the country. One poor house or several poor houses in a neighborhood have a tendency to pull down the values of all houses and have an effect of suppressing the market, which in turn has a negative effect on the availability of funds for mortgage or rehabilitation.

So we feel the general thrust of this bill will have a multiplier effect in respect to improvement in the general conditions in cities and other areas of the country. Also, we feel that the refinancing aspect is very good because many times the homeowner is faced with going out and paying a higher cost for rehabilitation money or going out and really having difficulty finding if there is a mechanism available for refinancing. We feel that will go a long way toward solving the availability of money problems.

We also feel that the provision of the bill that will permit the defaults to be cured by direct loans of money on behalf of the mortgagor is a very important feature. We have a great deal of experience in our program with that problem. Many times it does cause the home buyer or the mortgagor to ultimately let the house go because he just cannot come up with the money at the time, due to prevailing unemployment or sickness or some other reason. And as Mr. Noon mentioned, more times than not this is the elderly homeowner.

So we feel that with this provision we can work toward the solution of this problem on a short range basis to give us time to work out the long range solutions. If there is no forbearance on the part of the lenders, we are in trouble, because there is not much else we can do.

The feature permitting processing by the lenders, we feel is a very good one. I manage, in addition to the other activities of the program, a 400-unit 235 rehabilitation project in Baltimore. One of our experiences there is the drawn out time it takes to process a buyer from the point of application to actual occupancy of the house. We have been fortunate working with the Baltimore area office of HUD on a procedure whereby the lender or the mortgagee and our department and the local area office can work toward a speedy processing of the application.

But again, this is a special circumstance because of the nature of this project. I feel that to encourage processing or additional processing by the lender is good, because many times we go through the same steps with the mortgagee, as with the local area office when they review the application. So we do encourage that provision and endorse it.

The CHAIRMAN. We had experience with FHA mortgagees doing the underwriting, but had to withdraw the authority because of the failure of the mortgagee doing a good job. Have you had any experience of that kind?

Mr. WINDSOR. No, sir, I have not had any personal experience in Baltimore with that. In fact, we have, on several projects in which I am directly involved had the opposite experience. FHA has been able to generally rely on the processing by the mortgagee. Many times the mortgagee is making the determination prior to submittal as to whether or not the applicant is qualified for the loan. We have had a very good experience with this approach.

Mr. NOON. I would like to say also that many times in the Government and other areas, we are trapped. We get a good process or program and it fails in the initial execution because of a lack of followup or a lack of initial check, and then we throw the whole program out and look for something new. I think some of these failures come about because possibly we were not alert enough.

Perhaps if FHA had worked in concert with the local area, and we had better monitoring of these things in the beginning, we would find the shortcomings and get them corrected immediately and let them move ahead with the problem, instead of throwing the whole thing out.

The CHAIRMAN. We are going to move pretty fast on this. That is rollcall. We have to go in just a few minutes to vote.

Senator CRANSTON. I would like to vote and then come right back, and I will ask some questions.

The CHAIRMAN. I will stay on until five bells to recess until you get back. If you have rehabilitated property that you are selling to homeowners, have you had any trouble with defects in those homes?

Mr. NOON. We have not, Senator, because again in Baltimore we ourselves, the city of Baltimore, inspect that property.

The CHAIRMAN. You have adequate inspection?

Mr. NOON. That is correct, and I think that is the key.

The CHAIRMAN. And appraisal?

Mr. NOON. Yes, we have inspection and in the program such as Roger talked about, yes, we do the appraising. And we insist—we are at the present time now inspecting all sales property for FHA prior to the commitment by FHA.

The CHAIRMAN. We were out in Chicago sometime back dealing with that problem and we found some miserable housing in which there had been—to me it seemed—a complete failure on inspection and home appraisal that the property was sold to these people. And then the defects showed up. Nobody seemed to be responsible—I mean legally responsible. The mortgagee, the real estate man, the FHA, everyone disclaimed responsibility.

Mr. NOON. And those situations——

The CHAIRMAN. We saw housing in unbelievable conditions.

Mr. NOON. I know that has occurred in several areas throughout the country. But this is a situation where there was not sufficient monitoring and followthrough on the part of the local agency and possibly the Federal people concerned. We feel it is our responsibility. We have had less than one-half of 1 percent default.

The CHAIRMAN. What do you do in a case of that type?

Mr. NOON. Where we find this sort of shoddy work? In the work we do in Baltimore we set up the draws for the contractor. Contractors are screened by us when we are involved. We have a list of contractors who are reliable, licensed, have no past record of shoddy work that

we could find. We make this list available. If a contractor is on that list and he does not perform, we removed him from our list. We are very hardnosed about this. We are out inspecting and if the contractor doesn't do the work, he doesn't get a draw until the work is done to our satisfaction and to the homeowner's satisfaction.

We also make them guarantee that work for 1 year beyond the completion date. It is a question of being hardnosed with the contractors and the people involved. Watching the program.

The CHAIRMAN. Watching its ahead of time and during the time that it is being rehabilitated and each step involved in the transaction. Now how do you coordinate with the FHA in that regard? Do they notify the city of a pending FHA commitment?

Mr. NOON. Now they are coming to us and asking us—we make inspections for them prior to FHA commitments on any sales contract. That is one of the reasons I said we need more liaison and coordination with the local HUD offices, because unless we are involved directly as a city agency, such as in the 235 program, we had no authority or control. FHA was dealing directly with the developer. The only way we could exercise control was by going in and making inspections on city authority, which we did, but of course, that is too late. We can only inspect the property as it goes into occupancy and it is too late for us at that time.

The CHAIRMAN. What do you do in the case of those you don't have a chance to——

Mr. NOON. Well, we will refuse to issue a certificate of occupancy for that property, so the developer can sit with it until he fixes it, fixes the deficiencies.

The CHAIRMAN. Then what happens to the property?

Mr. NOON. If we refuse?

The CHAIRMAN. It stays with FHA?

Mr. NOON. With the developer or FHA until the property is fixed.

The CHAIRMAN. I feel very strongly that we need legislation that will require—let me start this way—require a liability for anything that goes wrong with the property that should have been discovered through inspection or through appraisal. And that liability rests primarily with FHA. And FHA should make certain that the real estate man that is selling the house, the contractor that does the work all have discharged properly their work as they move along. Would you agree with that?

Mr. NOON. I agree.

The CHAIRMAN. And we need it nationwide, not just in Baltimore.

Mr. NOON. That is right.

The CHAIRMAN. Thank you. I am sure Senator Cranston would like to ask some questions. So if you will just remain until he gets back. And I will take my leave now, because we have just a few minutes to get over there.

Mr. NOON. Thank you for your courtesy, sir.

The CHAIRMAN. We stand in recess until Senator Cranston returns.

[Whereas, at 10:40 a.m. the hearing was recessed, to reconvene upon the return of Senator Cranston.]

Senator CRANSTON. The committee will come to order. I appreciate your testimony this morning and your great interest in this legisla-

tion. I do have some questions. You believe that FHA insured programs would be used with refinanced mortgages in the inner city?

Mr. NOON. Yes.

Senator CRANSTON. What has been your experience with FHA in Baltimore?

Mr. NOON. I think Roger deals directly with them more than I do, and I would prefer that he speak to that question.

Mr. WINDSOR. Heretofore, within that 6 months we have seen a marked decline in FHA activity. I don't totally share Mr. Noon's feelings that lenders would work on refinance without the proper incentives existing for the lenders. But we have found—we are in the process in Baltimore of doing a comprehensive study of the dynamics of the industry as it relates to the city—that most of the FHA activity has been the result of the operations of mortgage brokers as opposed to the institutional lender—the savings and loan industry, or the savings banks that we have in Baltimore. I feel that what has happened in recent months is due to the inability of the mortgage broker to operate because of the interest rates prevailing around this part of the country, the additional requirements placed on the FHA mortgages, such as inspection provisions, and the processing time involved. We have seen almost a dryup of the market for FHA mortgages.

And yet this is clouded by the fact that the State of Maryland has recently enacted and implemented its own insurance program that is fashioned somewhat after the private insurance business, although we did manage to get a hundred percent insurance provision for the city of Baltimore. What is happening is the lenders are not even using the local insurance provisions. So what we have seen happen in the total marketplace in Baltimore and particularly in the inner city areas is that mortgage money is almost unavailable at this time.

Senator CRANSTON. I know that is repeated elsewhere around the country.

Mr. NOON. I think Roger was speaking to the inner city area, and of course, I know that in this bill we have major concern with the outer perimeters of the city, outside of the central core. This is an area where there is a lot of activity going on at the moment and this is the time that this housing needs assistance because if not it can get like the housing in the inner city core.

Mr. WINDSOR. I might also mention that that whole problem is further amplified or clouded by the fact that the State of Maryland also recently began a direct loan program. So that the State is in the position of mortgagee when a buyer demonstrates that he is unable to secure mortgage financing reasonably in the marketplace. I understand at the present time, that during the last 8 weeks of operation of that program, the State has received approximately 400 applications, and about 30 percent of those have come from the city of Baltimore.

Senator CRANSTON. Some observers have suggested to us that lenders will be encouraged to reinvest in declining areas only if the area is designated a neighborhood preservation area, or code enforcement area or some other type that indicates that services will be really concentrated there. Do you think that to be successful a refinancing program should be confined to a specific area or the lenders go on a spot-by-spot basis, in your opinion?

Mr. WINDSOR. That is hard to say. I don't like the designated area provisions too much, because, by its nature, it creates a certain stigma on the neighborhood. And I would like to see it available on a broader basis. It is hard to understand why the lending industry does not participate, and my own personal feeling is that in many respects it is because of the alternative investment that the industry has available. One of the thrusts of our efforts is to understand what is happening and then investigate the possibilities of either using existing regulations or proposing new legislation to require the lender to participate in the marketplace. Because when you look at certain segments of the market, landers have been chartered to do these things and they are not.

Senator CRANSTON. What role can agencies play to make the title I work better? Do you see a part for them in title III?

Mr. NOON. Yes. In the emergency loan situation, if there is a coordination, a program would be established similar to the way we do the 312 program, where the local agency would come in and analyze that situation, see what has to be done and monitor the work that is required to be done under that provision.

Senator CRANSTON. What about title I refinancing?

Mr. NOON. I think the same thing should occur there. I don't think that every homeowner who wants it should get the thing refinanced. Let the local agency come in and inspect the house and see the things that should be done, because if you don't, some people would be building a club bar in the cellar instead of replacing wiring or plumbing.

Senator CRANSTON. How much are title I home improvement loans being used in Baltimore?

Mr. NOON. Very little. There are only three institutions who are even bothering to offer it and even though they offer it, they try to encourage people to take out their bank home improvement loan, rather than utilize the title I. They get a little more interest, but there are also no checks on what the money is used for or what is done with it. So they try to encourage that. We find very little activity in title I.

Senator CRANSTON. Is it your opinion that a direct loan from the Government for emergency repairs could be useful because first, title I loans are not being made and also, because the assistance could prevent mortgage default?

Mr. NOON. Absolutely; because at the present time, we have even had to resort to desperate measures in Baltimore. Right now I have the National Guard of the State of Maryland and several Reserve units going into properties and making emergency repairs as part of their community cooperation program, because we find homeowners whom we can't in good conscience permit to continue to occupy their own houses and we are having emergency repairs made.

This is very difficult, particularly for elderly people, who don't like to have their neighbors see this had to be done.

Senator CRANSTON. What minimum code standards do you think should be required under title II, the elderly loan grant program?

Mr. NOON. In Baltimore we select the items that affect the health and safety of the inhabitant, and they are the items that we go in and insist upon. And I think that should be the standard, those items that actually affect the health and safety of the occupants.

Senator CRANSTON. Senator Taft wanted to be here today for your testimony and was unable to do so. And I have three questions to ask for him. He says—

I note your comments on the mortgage extension provisions of title I. Do you believe enough assistance can be provided in this manner or should there be further subsidy in the battle to preserve our housing?

Mr. WINDSOR. Yes, I believe so; again, that is another very difficult subject to summarize in a few words. I think there must be, in order to have it done, some greater or fuller participation by the lending industry. I think the resources are there, and I think that what needs to be done is to have an industry orientation for the long term effects of making money available for refinancing, rehabilitation, or anything else.

Mr. NOON. It has always puzzled me, and we are now beginning to work with the industry, that the industry may carry the paper on a great deal of housing in a particular area, and yet when we see one house deteriorating in that area, we have to use the mechanisms that we do to correct the situation of that one house.

Senator CRANSTON. Senator Taft's next question is:

What kind of area in your city do you think would benefit the most by this kind of legislation? Would it mostly benefit the urban renewal areas or areas that are less blighted?

Mr. NOON. Roger can give you his views, but I think that the areas that are just outside the center core in Baltimore, most of them not being urban renewal areas, would be the ones that would best be served by this program. And these are the areas of which I spoke, where we have 115,000 homeowners, and in which today are neighborhoods that traditionally are mixed neighborhoods in our city. And it would be—these are the areas where I would see it being the most useful.

Senator CRANSTON. The final question is:

You comment in the provisions of the bill which provide Government loans with deferred payments to those homeowners facing foreclosure, because their incomes are temporarliy reduced due to illness or unemployment could become more important in the near future. Have you detected a need for it in the near future? Would this provision be expensive or would it be more along the lines of disaster relief, which would give absolutely vital assistance to a limited number of people?

Mr. WINDSOR. I would think the latter, Senator, because many times when counseling with home buyers that have, for whatever reason, gotten into difficulty on their mortgage, to bring it current many times requires them at the worst possible time in their economic life to have to double up on payments. And this can become another spiral where they can't do that so they let something else go and run into credit difficulties in those other areas. Or, as in one instance, it really meant the family was trying to maintain the house and they were really using money that they would normally use for other household operating expenses. So I feel this provision would be excellent in terms of averting a disaster so to speak at a particular point in time.

And as far as the cost of it, I don't see where the cost—I feel when somebody is in a position where they really want to do whatever is necessary to maintain their house, and to keep it, then loans like this, I would feel very confident that they, in the long term, would be repaid.

[Complete statement of Mr. Noon follows:]

STATEMENT OF CHARLES NOON, DIRECTOR OF NEIGHBORHOOD DEVELOPMENT, DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT, BALTIMORE, MD.

We certainly thank the members of the Sub-committee on Housing and Urban Affairs of the Senate Banking, Housing and Urban Affairs Committee for the opportunity to testify on behalf of Senate Bill 971, the "Home Preservation Act of 1973".

Initially, we would like to convey to you that we in Baltimore feel this Act is of great importance to the continuing vitality of American cities.

Baltimore is a city composed of many neighborhoods with fine, well kept homes and strong community ties. It is of vital importance to the City's future that we preserve these neighborhoods and prevent them from suffering the deterioration experienced by so many urban areas. This goal is desirable for the welfare of the residents of these areas who have most of their life's savings invested in their homes, and for the health of the city which depends on the taxes from these areas to survive. A minimal investment of time and money now could prevent the major expenditure that will be necessary if we permit blight to spread unabated.

There are approximately 210,000 residential structures in the City of Baltimore, and two-thirds of these were built prior to World War II. Some 116,000 of them exist beyond the central metropolitan core of the City.

Of these residential structures, approximately 128,000 are owner occupied, and one of every five owners is elderly.

Most Baltimore neighborhoods contain substantially good residential structures marked by isolated substandard properties. In many cases such properties are in substandard condition either because the owners do not have access to rehabilitation loan funds at terms compatible with their income, or the loan funds available at conventional rates and terms do not provide a sufficient incentive for owners to rehabilitate housing (particularly vacant structures) in the City.

We feel that the maintenance by owner occupants of older homes throughout the City has become a crucial factor in the quality of housing, the value of property and the stability of neighborhoods in Baltimore.

While Baltimore traditionally has availed itself of all Federal programs to cope with this problem, we also recognize our responsibility to develop and apply our own solutions.

Baltimore was the first major American city to develop a Housing Code and to pioneer the use of Housing Courts and Housing Clinics as effective tools for maintaining urban neighborhoods.

As a part of our city-wide enforcement program, we have initiated a system of patrol inspections to identify and check incipient blight.

Our Home Ownership Development Program, also unique within the nation, has been established to attract new owners into the city, assist the transformation of tenants into homeowners, and encourage private investment in the rehabilitation of older homes.

We have a Residential Environmental Assistance Loan Program financed by city revenues to further spur property rehabilitation. This program is a rehabilitation loan program initially designed to supplement the Section 115 grant and Section 312 loan programs by providing rehabilitation loans for areas not falling within the Federal designation for rehabilitation loans and grants.

Our efforts to control the problem of abandoned houses can be gauged by the results of our yearly Vacant House Survey, which monitors the number of vacant houses in the city. Our most recent survey reveals that there are 5,507 vacant houses in all categories as of the beginning of 1973.

Dr. George Sternlieb, of the Center for Urban Social Science Research of Rutgers University has said that Baltimore is probably coming to grips with this situation better than most cities, and that this survey provides "harder" data than most cities can provide.

The Baltimore figures compare, he said, with 38,000 abandoned houses in Philadelphia, 50 to 100,000 in New York, at least 12,000 in Detroit. In Newark, 6,500 or more houses are vacant, and an additional 2,500 are being abandoned annually. In Cleveland, about 30 percent of the homes in the Hough area are vacant.

"Baltimore it the first city to have computerized its data on the condition of housing stock, as well as its housing inspection operations, "Dr. Sternlieb said.

"This enables it to keep up with the situation day to day. People who are interested in housing problems are looking to Baltimore's leadership in this regard."

We feel that the care and maintenance of residential structures and neighborhoods is a broad and vital problem area. We believe that the Home Preservation Act of 1973 offers opportunities for solutions to people and property problems not heretofore available.

Although we recommend some minor changes to the Bill, we wholeheartedly support its enactment. Its major thrust and spirit addresses and corrects many of the contemporary problems in this area.

Title I allows FHA insurance to be used to obtain refinancing necessary to stretch out existing mortgages, and in this manner provide money for home repairs without increasing the property owner's monthly housing expense.

In Baltimore City during the past fiscal year, over 14,000 violation notices were issued in a program directed at the exterior condition of properties lying beyond the central urban core. In over 10,000 of these cases the notices have been abated. Of the approximately 4,000 remaining cases, over 1,200 have been processed for Housing Court action. We realize that these notices have caused a sharp financial impact on many owners, and as a result, certain of the remaining cases have been reviewed by a special Hardship Committee. While only a small number of cases involving varying degrees of financial difficulty have been reviewed, the committee has determined that in 141 instances the effects were so serious that enforcement of the notices has been suspended. Based on this experience, we feel that assistance such as that offered by this Title will be necessary for many homeowners to accomplish the interior and exterior home maintenance which is essential to the stability of their neighborhoods and communty as a whole.

We note with interest, however, in Section 101 of this Bill, the language proposed for Section 244(g) of the National Housing Act: "In carrying out his functions under this section, the Secretary shall use his best efforts to *enlist the support and cooperation* of state and local governments in establishing and maintaining programs which contribute to the achievement of the purposes of this section".

We feel that consultation and coordination by the Secretary with concerned state and local governments and/or agencies should be a prerequisite to the implementation of any programs to be established under this section. Such prior consultation and coordination we believe is essential to the full and effective utilization of the authority contained in this Bill.

Title II is specifically designed to assist the elderly or handicapped homeowner.

In Baltimore, as we stated earlier one out of five homeowners is elderly.

Forty-two percent of the elderly homeowners in Baltimore City represent households with a total income below $4,000 a year. This represents over 10,000 households.

Further, it is estimated that almost 9% of all elderly Baltimore homeowners occupy deficient housing, that is structures in deteriorated or dilapidated condition.

A consideration of their problems should also recognize that home repairs and maintenance, property taxes and the burden of illness all represent significantly greater financial difficulties for the aged and the handicapped than for the general population. In view of these facts, and bearing in mind that any homeowner's inability to maintain his property will threaten the stability of his neighborhood as a whole, we welcome the type of assistance being proposed.

It should be noted in regard to Section 201(d)2, that we would advocate a broadening of the powers of the Secretary to include the authority under certain circumstances to waive all or a percentage of the created lien. It is our belief that such flexibility would be both valuable and justified in view of the possible downward fluctuation, over a period of several years, in the market value of the improvements made to a property. Waiver of the lien may well enhance the marketability of the property at a future date.

We consider the Periodic Payment Assistance provision of Title III a welcome new and direct approach to the problem of mortgage defaults. Unchecked, this problem could be an increasingly serious one in view of rapidly rising housing costs and the skyrocketing expense entailed by prolonged illness or protrated unemployment.

Further we endorse the Repair and Improvement Loans provision of this Title. Our experience indicates that Title I FHA rehabilitation loans are generally unavailable in Baltimore at this time. We understand that there are

many reasons for this, however, it is our belief that these could be best explained by representatives of the industry and thus we would not do more than comment on this condition at this time.

Section 403 under Title IV makes provision for the possible transfer to mortgagees of the processing of mortgage insurance applications. We favor the authority granted by this provision. Our experience indicates that there lies within the mortgage lending industry substantial expertise that the exising procedure requires to be duplicated at Federal expense. Perhaps, with proper monitoring, such transfer would permit reduction of these costs while at the same time eliminating the processing delays which have been a serious long standing objection to Federal housing programs. Furthermore, any reduction of the processing time could tend to curtail losses which result from vandalism occuring during the period of delayed processing.

In summation, we have not attempted to address in detail the provisions of this Bill, but rather to share our reasons for endorsing its enactment based on our experience of the housing situation in Baltimore City. We urge you to strengthen the provisions relating to the relationship between the Secretary of Housing and Urban Development and those state and local agencies concerned, because we feel that the utilization of these new resources can be further enhanced if consultation and cooperation between the Secretary and those agencies can be accomplished *both prior to and during* the implementation of flexible and coordinated programs.

The Act appears to require a few minor technical revisions and we would welcome the opportunity to work with your staff in any way and lend whatever assistance we have to offer in the finalization of this legislation.

Senator CRANSTON. I thank you very much for your very helpful testimony, and I congratulate you for the work you are carrying on.

Our next witness is Robert W. Maffin, executive director of the National Association of Housing and Redevelopment Officials. We welcome you.

STATEMENT OF ROBERT W. MAFFIN, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS; ACCOMPANIED BY MARY K. KENNO AND JOHN R. MAGUIRE

Mr. MAFFIN. Good morning.

Senator, we appreciate the opportunity to come before the committee and offer a few remarks regarding the various housing and community development legislations pending before this committee. We have a statement, which I would like to have filed for the record, if possible, along with one additional piece of material called "Future Directions in Federal Housing Policy," which was submitted to the Department of Housing and Urban Development.

[Mr. Maffin's statement and additional information may be found at p. 1251.]

Mr. MAFFIN. Thank you, sir. I would like to touch on the community development aspects of legislation pending before the committee first, and indicate that on the whole we find much of the legislation pending before the committee to be very helpful; particularly in terms of bringing together a variety of tools which have developed over the years, making them more immediately and readily accessible, available and usable in a more flexible fashion for the cities, counties, and States which have been involved in these programs. I will talk first about the so-called block grant concept—the concept of folding together several kinds of urban relief and development aids into a block

of funds to be made available to communities for community development purposes.

We think first of all that those block grants if they are to be made available must serve certain national priorities. These national priorities encompass the elimination of slums and blight; of seeing to it that the existing housing stock is served and rehabilitated as well as nonresidential facilities that need that kind of attention; providing for increased housng opportunities, especially for low and moderate income families, and the provision of related public facilities and services.

Secondly, that the community development program should include the physical development activities consistent with those national priorities and that the programs should not be predominantly a local public works program or a large-scale social services program. We simply mean by this that there is an extraordinary amount of physical deterioration and disarray in many segments of the city and that these areas require a composite of physical development activities that ought to be carried out to bring these areas back, or to, in fact, change them.

In the course of undertaking those kinds of activities, there should be physical or local public works type activities, just as there should be some kinds of social services related to helping the families, individuals, and businesses caught up in that process of change. But it is important that the program should not become simply a public works program nor a large-scale social service program.

Third, it is terribly important that the community development activities assisted under the proposed legislation be linked with and, if you will, coordinated with local public improvement programs. It makes very little sense to sometimes see local capital improvement programs going in one direction and community development activities going in another.

The legislation, in short, ought to encourage that kind of coordination and linkage.

If national priorities are involved, as we believe they should be, then the community ought to identify and serve those national priority areas. The community ought to also identify its own local needs and priorities. There ought to be a clearcut statement, as part of the application process, as to what the community intends to do with the moneys it has received under this block grant program—how those activities relate not only to national priorities but to local needs and demands.

We believe that the local administrative structure for planning and implementing community development programs is an issue that is best resolved at the local level where the forces, interests, experience, and governmental structure patterns are best interpreted and understood. The issue of how community development should be structured to be implemented ought to be decided at the local level, not prescribed in law.

Let me make one comment in passing for consideration by the committee. It is becoming increasingly apparent that much of what needs to be done in the community development context is going to require a high level of private involvement. We believe that any community development legislation should enable, if not encourage, the formation of public development corporations which could undertake some large-scale redevelopment activities. This is the direction which we believe

effective implementation of national priorities in this area would be facilitated.

Finally, we believe that the community development program ought to draw upon the experience and performance of existing agencies in communities in carrying out programs that are being folded into this program. There should be a strong linkage between community development programs and federally assisted housing programs and other kinds of assisted housing programs provided in some cases by State and local governments, including rehabilitation programs.

I suppose the most important single issue, of course, that we always have to deal with is the assurance that these programs will be adequately funded. It has not always been the case in the past, and certainly in most recent history, that the needs of communities have been met either with their own resources or with the appropriations and authorizations by this Congress. Those moneys simply have not been enough to do the job and we would urge, in considering appropriations and authorizations for this legislation, at least a level of $3 billion. I know this is in excess of what is currently proposed in the language, but in our judgment the folding in of the multitude of programs that are being consolidated, the increasing demand and inordinate national problems faced by cities, require a national investment of at least this level in order to do the job.

Let me deal with a few more areas, Mr. Chairman. The first is rehabilitation, preservation, and conservation. The bill that both Senators Taft and Cranston have introduced, the Home Preservation Act, we believe, is an additional step in the right direction. But let me say at the outset that one thing very salutary about the basic community development legislation which you have introduced, is that, for one of the few times in the history of community development legislation, we are really making commitments to cities, which means in our judgment, among other things, that there are tremendous assets and resources invested in cities and we need to make a major attempt at conserving and rehabilitating and preserving those assets, the residential and nonresidential stock, if you will.

We have a lot of programs which have dealt with these problems—the urban renewal program, the 312 loan program—but in our judgment there is a lot of knowledge that we need to assemble. We really do not have a major policy direction in housing conservation and rehabilitation or in preservation. We urge that this be done quickly, as a separate major thrust, not in terms of a legislative package, but as a separate effort urging that a very concerted effort be applied to determining how we can best conserve and rehabilitate the housing and nonresidential stock in the cities.

Let me make a couple comments about some of the specifics that we believe ought to be looked at in terms of rehabilitation, conservation and preservation.

First of all, the 312 loan program. Because it is a loan program, as distinct from a grant program like the proposed community development block grants, we believe that there is considerable merit in maintaining the separateness of the 312 loan program. This does not mean, of course, that communities, if they desire to use community development block grants under S. 1744, would not be permitted to utilize those funds to generate loans from banks. But rather that the 312 loan

program has been a very helpful tool which Mr. Noon and others before me have testified, and we think it ought to retain its separate identity, if, for no other reason, than it is a different financing mechanism than the grant program.

We would ask that the committee in its report language, for example, would encourage those using community development funds to explore new ways and alternative ways of financing rehabilitation. I think there is probably more ferment in the financing of rehabilitation going on right now across the country than we have had, in my memory at least, since we have been dealing with this problem.

One final conclusion with respect to rehabilitation: both in terms of public housing rehabilitation, rehabilitation under 235(j) and 222(h), as well as 312 and urban renewal, is that all these programs are consistent and we believe that the committee ought to be sure that the concept of these programs continue.

For example, since 1962, between 5 and 7 percent of all public housing units have been provided through the rehabilitation process. We think that that process ought to be continued and supported. We have already commented very favorably on the Home Preservation Act of Senators Cranston and Taft, and others, which we believe provides a very effective tool in dealing with moderate, as opposed to very substantial rehabilitation. We believe the provisions in title 3 of that act dealing with assistance as a last resort for homeowners is a very important and useful provision, and we second the kinds of comments that Mr. Noon and his associate made earlier this morning.

Finally, turning to the basic housing programs, we are mindful, as anyone else in this business is mindful, that we have 40 years of history behind us in federally assisted and subsidized housing programs, and that we are now engaged in a process of evaluating what we have done and where we ought to go from here.

I think we should not be under the impression, however, that that 40 years of history in the programs have been wasted efforts. Nor should we fool ourselves into believing that 6 or 8 months of evaluation of 40 years of experience can conceivably produce effective, full-blown and fully responsible and responsive changes or replacements for that 40 years of experience.

We have said so in delivering our comments to the Secretary on the housing evaluation program that the Department is now undertaking. We would advise a more extended review and analysis period. Since many of those basic pieces of legislation have been introduced, our standards of housing, our precepts of housing, our housing needs, have changed. We don't really know what those changes in standards and needs are in terms of the changes that have taken place. A great deal of effort, for example, simply needs to be spent in identifying what the condition of our housing stock is today. It is sad to say that the census data does not adequately reflect that condition and we need more information. If we are to embark on major changes, as has been the hallmark of recent comments, we think that those changes ought to be carried out on a demonstration basis. If there is one lesson we have learned over those 40 years it is: do not put into full operational activity a major new thrust without, "debugging" it; and that takes a period of time.

Let me make one final comment which we believe is terribly important and this deals with the fiscal condition of public housing. For many economic, social, and indeed legislative, public housing authorities in this country today are in a very difficult fiscal condition. When the decisions were made in 1969, 1970, and 1971 to place a limit on the rent-to-income ratio paid by tenants in public housing, provide adjustments in the definition of tenant income, adjust welfare rents, and insure adequate operating services, they were coupled legislatively with a commitment that the funds required to implement these congressional mandates would be made available by the Congress and the administration. That in fact has not happened.

We believe that it is terribly important for this country to recognize the enormous public investment we have in the over 1 million units of public housing and realize that in many communities public housing represents the only standard housing to which low-income people can go to be housed. That housing has to be maintained, in some cases modernized, in any event, maintained, suitable, and open for occupancy.

Now, that may mean, if the operating subsidy levels are not there to meet the need, that adjustments may have to take place as are proposed in this legislation. Under those terms and conditions we support adjustments in rent. It is always difficult for an organization like ours committed to seeing to it that low-income people are housed to suggest the necessity perhaps of raises in rent, but we do not know any way out of the dilemma and we believe it is terribly important to keep public housing open and in sound condition and available to low-income people. If subsidy funds, are not going to be made available at a level which will cover adequate operation of the units, then we support changes in rent requirements. I think that is the kind of position the public housing is in today.

We would urge, of course, among other things, that those kinds of amendments be fairly considered and we applaud the committee for the action it has taken in this area. We would trust that—we would urge, by either legislative language or legislative history, that adequate resources are devoted to maintaining and modernizing the 1 million existing units of public housing. There are several specific elements of the legislation which we cite in our written testimony, Mr. Chairman, which I won't bother to go over now, but it seems to us there are three major points: (1) That if you are going to do an evaluation of 40 years of history to change the course of the Federal Government's involvement in housing, it is going to take more than 6 months to do it; (2) Any new proposals you make that are large-scale or substantial departures from the programs we now have which by and large have been very successful ought to be done on a demonstration basis and, if you will, debugged. Finally, the enormous investment which this country and its citizens have in public housing needs to be protected and made available and open for occupancy. If it means increased operating subsidies or, that failing, some increases in rents combined with operating subsidies, then this assocation supports it.

The CHAIRMAN. Thank you very much.

First of all, Senator Brooke—I am sorry he is unable to be here this morning—if he were here he would want to ask you some questions regarding the public housing programs, questions which he has left with me; and what I would like to do is to give you these questions, instead of asking you now, and ask you to give written answers for the record. Would you do that?

Mr. MAFFIN. Yes, sir. I would be most pleased to.

The CHAIRMAN. Fine. We certainly do appreciate your presentation. Thank you very much.

Mr. MAFFIN. Thank you.

[Material received from Mr. Maffin follows:]

national association of housing and redevelopment officials



STATEMENT

OF

ROBERT W. MAFFIN

FOR

THE NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

ON

PROPOSED 1973 HOUSING AND COMMUNITY DEVELOPMENT LEGISLATION

before the

Subcommittee on Housing and Urban Affairs

Committee on Banking, Housing and Urban Affairs

United States Senate

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Mr. Chairman, members of the Subcommittee, my name is Robert Maffin, and I am Executive Director of the National Association of Housing and Redevelopment Officials (NAHRO). On behalf of the local housing, urban renewal and code enforcement officials who comprise NAHRO's membership, I wish to thank you for this opportunity to comment on legislation pending before you.

Community Development Block Grants

Let me begin by discussing community development block grants. NAHRO favors the concept of block grants, but feels that such a program must meet certain critical criteria to insure the effective and efficient use of federal funds at the local level.

First, community development block grants must embody national priorities. The primary national objectives of this program should be related to the physical development and redevelopment of the community: the elimination and prevention of slums and blight; the conservation and rehabilitation of the existing housing stock and non-residential facilities; the provision of increased housing opportunities, especially for low and moderate income families; and, the provision of related public facilities and services. In short, Mr. Chairman, community development block grants should be related to achieving the goal of a "safe and decent home and suitable living environment for every American family," first articulated in the Housing Act of 1949.

Second, a local community development program should include the physical development activities consistent with the national priorities discussed above; it should not be predominately a local public works program or a large scale social services program. It is NAHRO's position that any national block grant program must contain

provisions to limit the unrestricted use of federal funds for public works and social services programs. These activities should, of course, be eligible for assistance when they meet the test of being directly related to the achievement of those national goals just listed. Street repairs, water and sewer lines, recreation facilities and job training programs, for example, should be integral parts of an overall, comprehensive strategy aimed at revitalizing a decayed neighborhood, and therefore eligible community development activities. These same activities, when proposed in isolation and not related to national objectives, should not be eligible.

Third, the coordination of federally assisted community development activities with local public improvement programs is crucial. Most communities will find themselves in a position where their needs far exceed what can be accomplished through limited federal financial assistance. Thus, federal financial assistance should be used to bolster local efforts. Incentive payments to encourage the timely construction or location of a related public facility such as a school should be permitted. The use of community development grants or loans to provide interim financing and designing for schools and libraries and other similar facilities, should likewise be eligible. Finally, if a local financial share is required, the value of related local public investments for either public facility improvements or services (including schools, libraries, and hospitals) should be credited toward meeting this requirement.

Fourth, the principal requirement for the receipt of block grants should be a clear-cut statement of local mission, prepared with adequate citizen participation, that addresses itself to the achievement of the national priority areas discussed above. This application should be kept simple to enable speedy federal approval, but it should also contain adequate information on local objectives, set forth a

local timetable, and outline how local resources will be used to supplement federal efforts.

Fifth, the local administrative framework for planning and implementing community development programs should not be mandated in federal statute. This decision should be made by the local general purpose government and not preclude the use of existing local public agencies. Mr. Chairman, it is becoming more apparent that new vehicles may be necessary as an incentive for large scale development, redevelopment and rehabilitation projects. Public resources alone cannot do the job and some method must be developed to encourage the front end involvement of the private sector to allocate their financial and managerial skills necessary for such large scale projects as "new towns-in-town." A local, metropolitan, regional or statewide public development corporation, which would work within the context of a publicly-approved development plan but rely on private and public financing, guaranteeing an eventual return of private investment might be the answer. Nothing in the block grant legislation should preclude the use of such a corporation and, in fact, it may be desirable to include incentives to encourage the formation of these public development corporations.

Sixth, the allocation and distribution of federal funds should be based on local need, capacity and capability to perform, and previous commitment to the national objectives embodied in this program. If a formula is used for the distribution of funds, it should take into account a community's past performance as reflected in its use of existing federal community development programs. Likewise, all communities--regardless of size--now participating in the major community development programs should not be penalized by reduced federal funding if a formula approach is adopted. They should be held-harmless at current levels until it is clearly demonstrated that their community development needs have been met.

Smaller communities, including those not now participating in federal programs should be guaranteed direct access to a portion of the community development funds and should not have to go through a state intermediary to obtain them. Urban counties, when empowered to perform community development programs, should likewise have direct access to community development funds as should those states which wish to establish programs to assist local community development efforts.

Seventh, there must be strong linkage between federal community development and federal housing programs. Localities, as part of their community development applications, should submit a statement of housing needs outlining the need and timetable for use of federal housing assistance funds in conjunction with their local community development program. These funds should then be reserved and distributed to the community according to this local timetable.

Eighth, and most important, adequate funds must be authorized, appropriated, and released to insure that this consolidation of existing programs does not result in a lessening of federal commitment in the community development field. A three-billion-dollar annual commitment would, in NAHRO's mind, be an adequate initial funding level. Likewise, there must be an orderly and smooth transition from current categorical programs to the new community development framework, including assistance to complete ongoing local programs. NAHRO supports a special additional authorization to the urban renewal program of at least $300 million to assist in closing out these projects. This was contained in last year's Senate-passed bill. Finally, the existing provisions of federal loans or federal guarantees for local loans contained in the urban renewal program must be carried forward into the new program to provide localities with the necessary operating capital to implement community development activities.

Mr. Chairman, these criteria are absolutely necessary for effective community development legislation. Pending before the Committee is S. 1744, a re-submission of last year's Senate-passed community development block grant bill. NAHRO supports the basic direction of this bill, since it embodies the criteria outlined above.

Rehabilitation and Conservation of the Existing Housing Stock

Mr. Chairman, the problems associated with the preservation of the existing housing stock are both complex and increasing. The abandonment of buildings and neighborhoods in increasing number in local communities throughout the country is the sad end result of the neglect of our housing and neighborhood resources. For these reasons, NAHRO's 1971-1973 Program Policy Resolution called for "a priority effort to establish an effective program for housing and neighborhood improvement." The fact remains, however, that we currently lack the tested knowledge necessary to allow us to proceed with the implementation of any broad-scale, new comprehensive program in support of these priority goals. For this reason, NAHRO urges that we move forward at the present time with selected large-scale demonstrations on alternative approaches to preserving our existing housing resources. One of these demonstrations should focus on a "Neighborhood Improvement Program" together with innovative approaches to the management of existing housing outlined in the NAHRO Resolution. In the near future, we would be pleased to present this Committee with a more comprehensive statement on other demonstration possibilities.

For the purposes of this presentation today, however, I would like to make several comments with respect to the legislative provisions already pending before you, which are related to the need to preserve and maintain our existing housing resources.

As you are well aware, both the Section 312 rehabilitation loan program and the Section 115 rehabilitation grant program, despite funding irregularities, have been immensely successful in preventing the further deterioration of our valuable, existing housing inventory. NAHRO strongly favors the provision of S. 1774 which retains Section 312 as a separate program from the block grant, yet linked to the overall community development program by requiring that it be used only in those areas designated as part of a community development plan. In addition, we strongly support the provision of S. 1744 which permits "grants or loans for the rehabilitation and conservation of properties" as an eligible use of block grant funds. We have three major reasons for this position.

First, we envision difficulty in consolidating a loan program within the basic framework of a grant approach because of the differences in financing requirements.

Next, many communities (particularly those of medium and small size) may be unable or reluctant to undertake the long term responsibility for servicing these activities which might mean that rehabilitation financing could receive a lesser local priority.

Finally, there are problems resulting from State constitutional barriers against the making of gifts and loans to individuals. A limited survey of our membership indicates that in several states (e.g., Alabama, Florida, Ohio, and Washington), constitutional barriers would prohibit a locality from providing rehabilitation assistance to individuals directly from the community development block grant allocation.

We would also ask the Committee to encourage, in report language, the experimentation with alternative mechanisms for the provision of rehabilitation financing undertaken with community development block grant funds. In this regard, we advocate specific demonstrations with such concepts as a sliding interest rate, financing for activities short of full compliance with applicable codes, the use of escrow accounts for

maintenance purposes, and the increased involvement of private and public financial institutions. It is our hope that these demonstrations could proceed, monitored by HUD, in an attempt to increase the flexibility of current approaches to rehabilitation financing.

With respect to rehabilitation activities undertaken under the assisted housing programs, NAHRO supports the elements of S. 2182 which recognize these activities as an essential element for providing additional housing opportunities. We strongly urge the Committee to continue, under the terms of present law [Sections 235(j) and 221(h)], the eligibility of public agencies and nonprofit organizations to engage in rehabilitation activities, if needed, for subsequent resale to eligible purchasers.

In addition, we urge your support for the retention of the capacity to rehabilitate units under the public housing program. To date, almost 50,000 dwelling units have been rehabilitated through this program. This represents approximately 5-7 percent of all public housing developed from 1962-1971, and is steadily increasing (26% in 1972). Finally it is our hope that this Committee will reaffirm its support for the continuation of the public housing modernization program, which protects the existing inventory of over 1 million housing units.

Home Preservation Act of 1973

NAHRO wishes to commend Senators Taft and Cranston and their staffs, for their continuing leadership in support of housing preservation, as evidenced by their sponsorship of the Home Preservation Act of 1973 (S. 971). This legislation is designed to make available a broad range of rehabilitation financing assistance. NAHRO's understanding , however, is that it is not the intent of this bill to substitute for some of the basic programs under which rehabilitation has been

financed but is, rather, designed to fill in gaps not covered by the basic programs.

NAHRO supports the refinancing provisions of S. 971 endorsing, in particular, the notion that refinancing may be a very effective vehicle for undertaking moderate, as opposed to substantial rehabilitation. In addition, particular attention is drawn to Section 301(e), authorizing the Secretary to delegate the administration of Title II loans, and to make reimbursement therefor. NAHRO particularly supports this section, noting that the delegation of such powers to local agencies was one of the factors leading to the success of the Section 312 program.

Further, NAHRO endorses the provisions designed to cure defaults on mortgages and to provide in Title III direct loans as "assistance of last resort" for "homeowners who are unable to finance on reasonable terms, by any other means other than the assistance under this section, the full cost of repairs necessary to maintain their homes in a suitable living condition."

Future Directions in Federal Housing Assistance

Mr. Chairman, we would now like to turn our attention to housing; and in particular, to future directions in federal housing policy. This will include some comments on S. 2182, introduced on behalf of Chairman Sparkman on July 14, as well as some of the other bills currently pending before the Committee.

On May 4, 1973, NAHRO responded to an invitation from HUD Secretary Lynn to make recommendations on "Future Directions in Federal Housing Policy." We respectfully request that this paper be included as part of the record of these hearings.

NAHRO indicated to Secretary Lynn that the present HUD re-examination of federally-assisted housing efforts contained both "Pitfalls" and "Opportunities". The "Pitfalls" are related to the impracticality in the six-month evaluation period of either objectively evaluating existing program efforts, or developing an adequate analysis of our housing needs and requirements in 1973 terms.

In short, NAHRO recommends that, at this point in time, we by-pass the temptation to come up with "full-blown" and "large scale" new housing "programs" and undertake an evolutionary approach based on a program of "new directions".

A "New Directions" Approach

Such a "new directions" concept would include:

--formulation and adoption of immediate reforms in existing programs, both legislative and administrative, which current experience indicates would make them more effective. Continuation of existing programs at meaningful program levels until new program

approaches are tested and ready for implementation. Utilization of existing program mechanisms as one vehicle for testing out specific new approaches.

--development of meaningful standards for the evaluation of all phases of federal housing program operations: financing, production, management, administration. (The beginnings of such an approach, at least in the management field, are now under development in public housing, in the "Management Innovation" studies conducted by selected housing authorities; and in studies being conducted by the Urban Institute at the request of the Department of HUD, to measure the concepts and costs of effective housing management.)

--selection of the most promising new ideas for federal housing assistance for intensive demonstration and testing. The present demonstration on "housing allowances" is an example of one such an approach. This could be expanded in other areas, and with shorter time spans.

--development of basic research efforts to probe national housing needs and requirements, particularly to explore the dimensions of what national standard is implied in 1973 when we call for "a decent home in a suitable living environment for every American family."

A further explanation of ways to implement such a "new directions" policy, including essential roles for the Federal Government, are contained in the NAHRO paper.

The Need for Professional Management Capacity

Mr. Chairman, there is another urgent reason for proceding with an evolutionary housing policy rather than "full-blown" new housing programs. It relates to the impact

of still another new organization and re-orientation of our housing efforts on top of the organizations and reorganizations, directions and re-directions, which have surrounded the Federal administration of these programs over the last several years. There is a need to take some time to re-build and re-inforce the professional management capacity to administer and implement housing programs before placing still further demands either on existing institutional capacities, or on new and untested institutional capacities. Strengthening management capacity must precede the initiation of broad new program efforts, or the best program approaches will not succeed. The recent analysis by the Congressional Research Service of the Library of Congress for this Subcommittee of the subsidized housing programs. (An Analysis of the Section 235 and 236 Programs) makes this point in one terse paragraph (P. 20):

> "An Administration spokesman, Kenneth Cole, Jr., Director of the Domestic Council, has written to Senator Sparkman, with reference to the subsidized housing programs, that, 'a series of evaluations by the Congress, the Administration and others has revealed a central theme -- the program structure we now have cannot possibly yield effective results even with the most professional management.' The brief preceding review of program management raises a serious question whether the programs were ever tested under acceptable professional management."

As a professional Association, NAHRO believes that it is time to take steps to insure feedback of adequate operating data, tested standards and yardsticks for evaluating program performance, and skilled personnel to administer housing programs, whatever the approaches and directions of our housing assistance programs. This applies to Federal, State and local levels.

S. 2182 and Related Housing Bills

Mr. Chairman, S. 2182, introduced on July 14 and now pending before you, is an excellent vehicle to pursue the "new directions" in housing policies that NAHRO recommends. It builds on the extensive work done by this Subcommittee in last year's bill (S. 3248) encompassing not only the consolidation and simplification of existing housing programs, but also significant program reforms, particularly relating to an occupancy pattern for federally-assisted housing which prohibit segregation of

residents into assisted housing by income class. NAHRO supported S. 3248 as a strong step forward in our national housing policies to make the existing housing programs both more flexible and manageable.

NAHRO Endorsements

The bill, now before you makes some important additions which, for the most part, strengthen further what was begun in S. 3248. NAHRO particularly commends the following additions:

--Section 402(m) of Title IV which requires homeownership counseling.

--Section 502(m) of Title V which recognizes the need for a closer monitoring of management experience by the development of new local capability

--Chapter III which provides a major new effort to test out in practical demonstrations how we can meet the housing needs of special types of households more effectively.

--Section 6(d) of Chapter II which provides for a testing of the payment of full taxes in selected new public housing developments, to determine the potential affect on procuring adequate and well-serviced site locations.

--Section 6(f) of Chapter II which recognizes the need for a program to deal with obsolete housing developments; to undertake modifications, or to close them out.

--Section 10 of Chapter II which provides important incentives to strengthen the capacity of local housing authorities in both large and small communities to respond to changing needs and circumstances.

Fiscal Position of Public Housing

NAHRO would also like to make some comments on the provisions in S. 2182 relative to the fiscal position of local housing authorities. These provisions include (1) the ceiling on operating subsidies [Section 9(c)], (2) the Sections establishing a minimum rent , adjusting the definition of income, and establishing a rent for residents receiving public assistance (Section 3) and (3) a proposed new procedure for the determination of annual operating subsidy based on "base-level" operating requirements. (Section 9-a).

All of these provision must be viewed in the light of the present fiscal status of local housing authorities: as of June 30, 1972, the Department of HUD estimates that 181 local housing authorities were in "serious financial condition," housing about 43 percent of the 1 million tenant families in the program. The number of local housing authorities in "serious financial condition" has grown from six in 1970, largely as a result of the failure of the federal government to make up the losses in rental revenue caused by congressionaly-mandated rent restrictions. The "Interim Formula" for allocating federal operating subsidy, adopted by HUD in November 1972 and currently the basis for the level of $280 million proposed by the Administration for Fiscal Year 1974, has serious deficiencies. Under this formula, most local housing authorities have reduced their reserves to minimal levels to accommodate operating deficits, have deferred maintenance, and have cut back services which could not be absorbed under a 3% inflation limit. It is clear they many local housing authorities cannot go through the current fiscal year under these conditions without a major collapse of services, physical facilities and living environment. The federal investment in the inventory of almost 9,000 housing developments across the Country is in danger.

The federal operating subsidy currently required to fund an adequate local housing

operation is estimated at $500 million. In this context, the provisions of S. 2182 would provide a"balance of resources"to approach the estimated $500 million requirement: the $350 million in annual operating subsidies from the federal government (this should be made mandatory, not subject to impounding or reserving); and some $100 million in revenue generated from changes relative to rent payments. Important questions of national policy revolve around the acceptance or rejection of this "balance of resources" as currently set forth in S. 2182. A particularly important policy issue concerns the rents to be paid by families receiving public assistance and living in public housing. NAHRO believes that there is merit in considering the provisions of S. 2182, as they are now set forth. The Association has long endorsed a policy, also endorsed by this Subcommittee, that welfare departments should provide their clients with rent allowances sufficient at least to meet the operating costs in public housing. The need for public housing assistance is so great that funds should not be diverted to meet the deficiencies of inadequate welfare budgets.

But, in any event, it is NAHRO's position that either sufficient federal operating subsidy in an amount necessary to meet the total requirement, or an adequate combination of federal operating subsidy and revised rent requirements, must be enacted in the 1973 Congressional year. The viability of the total public housing program is at stake.

From a longer-term point of view, NAHRO strongly endorses the procedure set forth in Section 9(a) of Title II, which would insure a "base level" of operating services.

Allocations of Housing Assistance

Finally, Mr. Chairman, I would like to make some preliminary observations relative to

the proposed Title 9 of S. 2182, "Allocations of Housing Assistance Appropriations." We are not prepared at this time to take a position, pending our exploration of pertinent questions:

--What would the proposed formula produce in terms of housing allocations for various geographic areas, relative to current use of housing assistance funds?

--Should housing funds be allocated on a formula basis, or directly on the basis of a local housing program, housing goals, and local capacity to produce, manage and maintain housing?

--What are the advantages and disadvantages of taxable obligations vs. tax exempt obligations. This also affects the public housing program [Section 5(g)].

--How can a single block allocation of housing funds be related to the long term debt service requirements of housing development?

--Does this approach really provide the incentives for State government to perform its unique role in support of housing?

--What is the current capacity of general purpose local government to administer block-grant housing funds?

--Should a housing sponsor have only indirect assess to federal housing assistance?

These and other questions relative to Section 9, will be explored by NAHRO over the next few weeks. We request permission to present our views more fully at a later date on this subject, and other related housing subjects.

In the meantime, we believe there is merit for the Committee to consider the financing mechanism of direct loans, proposed by Senator Proxmire in S. 2169, for the 235 and 236 Programs, and in S. 2179 by Senator Williams, for housing for the elderly. We also specifically endorse the concept that State and local public agencies should be eligible recipients of housing assistance funds under the FHA Assistance Programs. Such action would insure that some portion of this federally assisted housing would be available on a continuing basis as public capital assets.

Mr. Chairman, we commend you, the other members of the Committee, and the staff, for your continuing dedication to the housing and community development needs of the country. We are encouraged by your desire to maintain a strong and necessary role for the Federal government in these areas. It is our hope that by building on our previous successful program accomplishments, we can expeditiously move forward with new and better program tools for the complex problems of the future. We know you share this concern.

This concludes our formal remarks. As always, I will be pleased to answer any questions of the Committee.

FUTURE DIRECTIONS IN FEDERAL HOUSING POLICY

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SUMMARY OF NAHRO PAPER

PART I - 1973 HOUSING POLICY EVALUATION: PITFALLS AND OPPORTUNITIES

Part I states that the 1973 evaluation is subject to the pitfalls that (1) the six month evaluation time is too short to do an adequate job of assessing the needs and requirements of a revised national housing policy (2) that, based on past precedent, there is a built in compulsion to propose a "bold new program" for immediate adoption and (3) that because of lack of adequate data and evalution yardsticks, the 1973 study could become a meaningless debate. The opportunities center on the acceptance of the proposition to undertake "new directions" rather than immediate "new programs" providing time to undertake the testing of a series of possible new approaches before any major new housing program is adopted. A part of the "New Direction" program would be continuing efforts to develop an adequate data base, program performance yardsticks, and a policy and problem-oriented research program in housing.

PART II - AN ASSESSMENT OF NATIONAL HOUSING NEEDS AND REQUIREMENTS: 1973

Part II states that there is a need to define what we mean in terms of a "decent home in a suitable living environment", based on 1973 standards of adequacy of housing. Particularly, it sets forth the need to develop a larger federal assistance effort to preserve the nation's existing housing stock. It proposes the re-examination of the 10-year housing goals, the development of a cohesive, coordinated national housing policy. Finally, it makes seven specific recommendations designed to provide the basis for assessing the nation's 1973 housing needs and requirements.

PART III - THE ROLE OF THE FEDERAL GOVERNMENT IN HOUSING

Part III cites the principle of past experience relative to the federal role: the need for a national standard of "a decent home in a suitable living environment" which can provide a national objective to which federal assistance can be directed. Seven basic elements of the federal role in housing are proposed; and 12 specific functional areas for federal action are cited under these roles. A NAHRO concept of the local and State role in housing, relative to the Federal role, is developed.

PART IV - FEDERAL HOUSING ASSISTANCE: EXISTING PROGRAMS

The first section of Part IV, analyzes the existing federal housing assistance approaches in terms of eleven major policy areas, pointing out the assets and the shortcomings of the existing housing mechanisms. The second section of this Part IV covers the evaluation of existing housing programs, pointing out the impact of past ambitious goals, the lack of adequate program data, and the lack of tested, objective yardsticks for program evaluation. It cites APPENDIX A which lists recent NAHRO Testimony on the "Myths and Realities in Public Housing" as an example of the misconceptions resulting from inadequate program information. It cites some "problem areas" in the administration of current programs.

PART V - FEDERAL HOUSING ASSISTANCE: NEW APPROACHES

Part V provides a checklist of key policy issues for consideration in the development of any new program approaches. It summarizes recent housing reform legislation, particularly the 1972 reform program of "A Single Variable Subsidy Approach." It recommends the exploration of new housing assistance mechanisms geared to (1) a household needs approach and (2) a housing market approach. It makes observations on four areas requiring attention in any new program approaches: the existing housing stock, concepts of ability to pay for housing, administration and management consideration, and a delivery system for federal assistance.

PART I

1973 HOUSING POLICY EVALUATION: PITFALLS AND OPPORTUNITIES

The study and evaluation of Federal Housing Policy being undertaken by the Administration in the six-month period between March and September, 1973 comes at a critical time in the historical evolution of housing policies in the United States. It is not taking place in a vacuum; it is influenced by the policies and programs of the past. In fact, a major rationale for its initiation is the contention that the existing policies and programs are "not working", and that new directions are required. The 1973 study not only presents an important opportunity to review past and current housing efforts, but also to re-assess national housing needs and requirements for 1973, and for the years immediately ahead.

More than most studies and evaluations, the 1973 effort has particular pitfalls and opportunities.

In terms of pitfalls, the following are perhaps the most potentially dangerous:

A. A six-month period is not a sufficient time to assess all of the requirements and complexities of national housing policies and programs. There is the danger that the study will be superficial. This is particularly true in terms of evaluating existing housing programs, because:

   -- Statistics and operational facts are grossly inadequate

   -- Tested standards and yardsticks for evaluating program performance are almost non-existent

-- Past evaluation of program performance, even with inadequate standards, has been piecemeal and incomplete.

Six months is also too short a time to assess current and future national housing requirements, because:

-- There is a need for a completely new examination of national housing needs and requirements, with particular attention to (1) our housing standards in 1973 (2) the way housing relates to national economic policy (3) the way housing relates to the national pattern of growth and urbanization, and (4) the way housing assistance relates to federal income maintenance assistance (public welfare assistance).

B. Based on past precedent, there is a built-in compulsion to come out of the 1973 study and evaluation with a "bold new program " which will be proposed for immediate adoption as national housing policy. There will be no opportunity for testing. Only after several years of operation will we find that it is not working, or that there is a better way to structure it. Past experience should make us wary of "panaceas" and "untested programs."

C. Because of the pitfalls represented in (A) and (B) above, there is a danger that the 1973 study and evaluation will become a meangless debate between those who "want to get rid of the existing housing programs" and those who "want to keep them." The 1973 study and the reaction to it may resolve into a collection of selected data and experience to prove either

that programs "have failed" or "have succeeded." It does not have to be that way, if the 1973 study and evaluation recognizes the pitfalls and responds to the opportunities.

In terms of opportunities, the 1973 study and evaluation has the following prospects:

A. A Decision to make the six-month study, a turn to new "directions" rather than to immediate new "programs" could make it workable and meaningful.

"New directions" emerging out of the 1973 study and evaluation could include the concept of an evolutionary housing policy and program with the following components:

-- Formulation and adoption of immediate reforms in existing programs, both legislative and administrative, which current experience indicates would make them more effective. Continuation of existing programs at meaningful program levels until new program approaches are tested and ready for implementation. Utilization of existing program mechanisms as one vehicle for testing out specific new approaches.

-- Development of meaningful standards for the evaluation of all phases of federal housing program operations: financing, production, management, administration. (The beginnings of such an approach are now under development in public housing, in the "Management Innovation" studies conducted by selected housing authorities; and in studies being conducted by the Urban Institute at the request of the Department of HUD, to measure the concepts and costs of effective housing management.)

-- selection of the most promising new ideas for federal housing assistance for intensive demonstration and testing. The present demonstration on "housing allowances" is an example of one such program approach . This could be expanded in other areas, and with shorter time spans.

-- development of basic research efforts to probe the housing needs and requirements, along the lines already noted above. Other parts of this paper present further recommendations which could be a part of this research effort.

The 1973 Study and Evaluation of Federal housing policy could move the nation to a new level of maturity and responsiveness, by by-passing the temptation to promote immediate and ready-made solutions, and by carefully scheduling an evolutionary housing policy and program.

PART II

AN ASSESSMENT OF NATIONAL HOUSING NEEDS AND REQUIREMENTS: 1973

The objective of our national housing effort, to which everyone subscribes, comes from the Declaration of Purpose of the Housing Act of 1949 -- "a decent home in a suitable living environment for every American family." The major instrument of our national housing effort is the statement of 10-year housing goals adopted by the Congress in the Housing and Urban Development Act of 1968. Since the mid-1930's, the National Housing Acts have pledged the use of national resources: to the support of the housing industry as a key component of the national economy; to the eradication of blighted housing; and to the provision of housing assistance for those who cannot afford the housing available on the private market.

In 1973 there are a number of new dimensions in these national commitments which should be explored and adjusted:

A. A "Decent Home: American Housing Standards in 1973. The Housing Census was first taken in 1940, and the criteria for housing inadequacy (substandard) was housing "needing major repairs or lacking plumbing facilities." In 1970, there has been a dramatic improvement in housing conditions, based on this 1940 definition -- largely an improvement due to addition of plumbing facilities. There is serious question, however, as to whether the criteria of "plumbing facilities" is an adequate one in 1970. There are other aspects to "decent housing", including overcrowding, condition of housing structure, and excessive housing payment requirements. Based only on the factors of lack of plumbing facilities, overcrowding, and excessive housing payments (more than 25 percent of income for rent), at least 15 million American households were

inadequately housed in 1970 -- one-quarter of all American households.

This assessment of housing needs is exclusive of condition of housing structure, which was not directly enumerated in the 1970 Housing Census. At the present time, there is no national mechanism to determine the condition of the nation's housing stock, despite the fact that it represents an impressive proportion of the nation's wealth. Lack of a method to measure the condition of housing under nationally-recognized standards exists at the same time that there are many signals that our existing housing stock is in grave danger. Widespread abandonment of existing housing in large urban neighborhoods is causing the loss of thousands of units of existing housing every year, many in standard or renewable condition. Further, the Fourth Annual Report of National Housing Goals sent by the President to the Congress on June 29, 1972, points out a "possible danger of under maintenance of the nation's housing stock". The warning is based on a review of the eight year trend (1962-1970) in the volume of expenditures by residential property owners for maintenance, repairs and improvements of their property. While the total of such expenditures increased almost 30 percent in the eight-year period, from $6.6 billion to $8.5 billion, if the increasing number of housing units and the rising costs of maintenance are taken into account, it appears that these expenditures (in constant dollars) have dropped from $127 to $102 per housing unit. Based on generally accepted norms of annual expenditures for maintenance, repairs and major replacements, the recent average of $124 per unit (before adjustment for changes in dollar value) would be appropriate for a housing unit valued at about $7,400 or slightly more than half of the average value of occupied housing unit in the 1970 census. This is not encouraging news about the trend in quality in our housing stock.

There are also inadequate mechanisms to assess the status of the nation's housing markets, represented in particular by the large metropolitan areas and their marketing territories. A 10-year census does not adequately reflect these changing markets, and the degree to which they are responding to housing requirements of the population.

Immediate steps should be taken to remedy these shortcomings, and some NAHRO recommendations are noted at the end of this Part II.

B. A "Suitable Living Environment"; Neighborhood Environment, Facilities, and Services.

It is of little comfort to an American family in 1970 to be counted in the Census as having a "standard dwelling with all plumbing facilities" if that housing is located in an abandoned urban neighborhood, in a suburban neighborhood characterized by pollution and congestion, or in a rural area remote from bacic facilities and services. Environment, facilities, and services are essential components of American housing standards in 1973. This means that Federal housing assistance efforts must be directly linked with community development activities, including renewal of blighted areas, as well as new growth and development.

The study recently published by NAHRO under a HUD grant (Metropolitan Housing: Roles and Responsibilities of Five Key Actors, NAHRO, 1973) cites (on pages 25-30) the supporting facilities and services essential to housing, including the fiscal capacity of local political jurisdictions to provide continuing municipal services related to housing and neighborhoods. It also spells out (page 14) the important relationships of housing to the comprehensive planning process (The Comprehensive Development Guide) and the Com-

munity Development process (The Community Development Program). Recommendations are made in the NAHRO study to link housing to these important processes and are cited at the end of this Part II.

C. National Housing Goals: Housing and National Economic Policy.

The emphasis on our national housing goals effort to date has been primarily on the degree to which housing production, both private and federally-assisted, is meeting the numerical targets of 26 million housing units, with 6 million units of low and moderate income housing, over the ten-year period of 1968-1978. Impressive production records were set in the first four years of this effort (through fiscal year 1972) in the assisted housing programs. Since then, the volume of assisted housing commitments has declined (for a variety of reasons) while the volume of unassisted private housing is equaling or surpassing its goals. Through 1972, there were, however, significant shifts among the program activities in terms of the original goals, with new elements added (mobile homes, rural housing); and emphasis changed (to home ownership away from rental housing; to moderate rental housing away from low-income housing). All of these factors have stimulated a desire for a new assessment of the housing goals as a tool of our national housing effort, including the question as to whether numercial goal-setting on a ten-year basis is the way to achieve housing progress.

Less attention has been directed to the housing goals as a tool of national economic policy, strongly implicit in the purposes set forth in the 1968 Housing and Urban Development Act. There has been little evidence that national housing goals have been integrated with decisions on national economic and fiscal policy. The timing of the report on housing goals alone (February of each year) would appear to mitigate against such a relationship with economic policy; in practice, the goals report has not usually been submitted to the Congress until late Spring.

There is need to reappraise the concept of 10-year numerical housing goals, and particularly evaluate the reasons why they have not been more closely linked with national economic and fiscal policy.

D. A Cohesive and Coordinated National Housing Policy

The pieces of Congressional intent relating to housing policy are disbursed among the various federal housing Acts enacted over the years; they are not assembled into a cohesive, coordinated, national housing policy; some of the individual elements are contradictory. There is need for the formulation of such a cohesive and coordinated policy, including the elimination of conflicting policies and requirements in current legislation and administrative regulations pertaining to the location, occupancy and amenities of Federally-assisted housing. Such a policy must respond to the needs of various types of households. It should also be designed to relate the housing needs and requirements of the inner core areas of cities,

the outlying sections of cities, and the suburban, metropolitan and rural areas beyond the central cities. It must also provide a workable system for linking housing to national economic and fiscal policy, so that housing progress can be over changing periods in the economic cycle.

E. NAHRO Recommendations:

1. A new definition of adequate housing standards for the United States should be developed reflecting not only plumbing facilities, but condition of structure, crowding, ability to pay for housing, neighborhood environment, access to facilities and services.

2. To compensate for the lack of a mechanism to determine the condition of the national housing supply, federal assistance and a uniform (national) survey instrument should be developed, to enable States and localities to maintain on-going surveys of the condition of housing. Such state and local surveys should be assembled into a national picture of housing conditions.

3. The Annual Housing Survey, to be conducted for the first time in 1973 by the Bureau of Census for the Department of HUD, should be expanded to cover at least 20 of the largest standard metropolitan areas, so that current market data can be collected to show what the gaps are in meeting housing requirements. Additional areas could be covered on a rotating basis.

4. The 1968 national housing goals should be evaluated in terms of 1973 standards of housing adequacy; in terms of 10-year numerical goals as a mechanism; and in terms of how housing goals can be related to national economic and fiscal policy.

5. To provide for the establishment of national housing goals, federal assistance should be provided so that States and localities can develop housing goals in direct relationship to their particular needs and circumstances. Such local and State goals should be assembled into a national picture.

6. A cohesive and coordinated National Housing Policy should be developed: eliminating conflicting policies and requirements; insuring that housing policies among all political and geographic areas are related; linking housing policy to economic and fiscal policy; and responding to housing needs of particular types of households.

7. To insure progress toward the achievement of the goal of housing "in a suitable living environment," federal assistance and initiatives should be made to link housing more closely to the comprehensive planning and community development processes. Explicit recommendations in this regard are contained in the recently-published NAHRO study -- Housing in Metropolitan Areas: Roles and Responsibilities of Five Key Actors (see especially, pages 3, 14, 34-36, and 40 of this attached report).

PART III

THE ROLE OF THE FEDERAL GOVERNMENT IN HOUSING

The federal government is committed to the achievement of"a decent home in a suitable living environment for every American family." It exercises the Federal role in moving toward this objective in a variety of ways; some are national in scope, such as the support of housing as a major component of the economy through fiscal and tax policies. Others involve sub-national areas such as providing housing assistance to localities and States to meet the needs of those families who cannot afford housing on the private market; a number of Federal roles have benefits and impacts which apply to both national and sub-national areas.

A. Some Principles of Past Experience

Experience gained over the past 40 years with the federal housing role has established some important principles:

-- If the nation as a whole is to move toward the achievement of national housing goals (such as those set forth in the 1949 Housing Act) then federal actions and resources must be tied to the achievement of these goals. Clear concepts of what is meant by a "decent home" and "a suitable living environment" should be devised and should have consistency on a national basis. "Clear concepts" and "consistency" do not imply national "uniformity," but there should be recognized national criteria defining what is meant by an adequate housing and a suitable living environment. For each locality and State to completely set its own standards would result in major inequities in housing opportunities across the nation; such a procedure would make it impossible to achieve national housing goals.

-- If the individual localities and states are to relate effectively to their own needs and circumstances, then they need flexibility to use federal assistance in ways that respond to their needs, without excessive federal direction and approval. They also need access to information and knowledge about housing and housing problems; access to tested techniques in housing administration, development and management; and access to general and specialized personnel skills.

B. NAHRO Concept: The Federal Housing Role

In general, the role of the Federal government in housing can be summarized under the following seven areas:

1. To Provide a Base of Information and Knowledge about Housing and Housing Problems.
2. To Establish and Implement National Housing Goals
3. To Support Housing as an Integral Part of the National Economy Through Fiscal and Tax Policies.
4. To Remedy The Imperfections of Housing Supply and Distribution Through The Management of Federal Credit Resources.
5. To Stimulate The Activity of Localities and States Toward the Achievement of National Housing Goals particularly through Federal Assistance Designed to Provide Housing Opportunities for Families Who Cannot Afford Housing on the Private Market.
6. To Establish Standards and Yardsticks to Evaluate: the Quality of Housing Development and Construction; the Impact of Fiscal and Tax Policies; the Effectiveness of Housing Production, Administration and Management; Progress toward Achieving the National Housing Goals.

7. To Support the Development of Career Training Opportunities in housing to insure a supply of skilled housing personnel at all levels of the housing effort, both private and public.

C. NAHRO Recommendations: Some Specifics of the Federal Housing Role

These are some specific federal activities of the federal housing role: (not a complete listing):

-- Development of an adequate information base on the nation's housing role and requirements (see Part II of this report).

-- Development of national standards for adequate housing, based on changing circumstances and needs (see Part II of this report).

-- Development of national housing goals, linked to national housing economic and fiscal policy (see Part II of this report).

-- Development of national housing goals, including providing assistance to States and localities to develop goals (see Part II of this report).

-- Development of a cohesive and coordinated national housing policy (see Part II of this report).

-- Execution of all federal government activities so as to support national housing goals and policies; such as adequate housing for those employed by Federal government.

-- Development of a mechanism to insure a continuing financial commitment of federal resources to housing, sufficient to achieve housing goals over a reasonable time period, and on a continuing basis.

— Development of delivery systems for federal housing assistance that will insure progress toward national goals, while providing flexibility to respond to local needs, without excessive federal direction and review. A post-audit system deserves special attention as a possible device.

-- Development of a program of federal housing research designed to probe the answers to difficult housing problems; one of the basic areas requiring new knowledge is the complex cycle of "growth, maturity, decline, and decay" of our housing stock in the various development stages of urbanization.

-- Development of a program to establish criteria and performance yardsticks for housing production, management and administration.

-- Development of programs by the federal government aimed at training of skilled specialists in the housing functions of production, management and administration, who can staff HUD offices in strategic locations, providing technical assistance to localities and states, until adequate skilled personnel is available in localities and States.

-- Development of an assistance program by the federal government aimed at training skilled specialists and administrators to increasingly assume the responsibilities of publicly- assisted housing at the local and State levels, as well as private housing.

D. The NAHRO Concept of the Federal Housing Role: In Retrospect

Looking at the history and current practice of the federal role in housing in the light of the NAHRO concept of the Federal role just outlined provides some useful insights:

-- The Federal government has carried out activities under all of the seven basic categories defined on pages 13 and 14, as the federal role, but there has been no attempt to relate the various activities under a cohesive national housing policy or strategy to achieve national housing goals.

-- While there has been Federal activity under all categories, some roles have beem implemented in only a minimal way. The Federal activities in housing information and research, development of performance standards, and training professional personnel, have been minor related to the importance of housing in the economic sector, and to the Federal investment in housing assistance.

-- The neglect of the Federal role in such key areas as development of tested performance standards and training of personnel has had a direct impact on the limited capacity of the Federal government and local governments to carry out consistent program efforts.

E. The NAHRO Concept of the Local and State Housing Role

NAHRO believes that the maximum amount of imitiative and flexibility should be placed at the local and State levels, to devise and carry out the programs and strategies to achieve local and State housing goals -- with the help of federal housing assistance keyed to the achievement of well-defined national housing goals and objectives. In order to assume this responsibility, localities and States need to move beyond the present

"project" approach to housing assistance, to a longer term "housing program" approach related to comprehensive planning and community development activities. In developing the capacity to carry out this increased responsibility, it is essential that they have access to federal support not only in housing assistance funds, but in Federally-supported efforts: to develop new knowledge about housing and housing problems; to establish tested performance yardsticks for housing administration, development, and management; to recruit and train professional housing personnel.

PART IV

FEDERAL HOUSING ASSISTANCE: EXISTING PROGRAMS

A. An Analysis of Existing Housing Assistance Approaches

1. Scope of Existing Programs In Terms of Total Housing Need -- While there are differences in estimates of what the total housing requirements are in the United States, it is clear that that volume of the existing programs falls considerable short of the housing need. There is a related question of equity since not all potentially-eligible families are receiving housing assistance.

2. Relationship of Federally-assisted, State-assisted, and Locally-assisted Housing -- In recent years, there has been a growth in the number of States undertaking housing programs, particularly State Housing Finance Agencies. Thus, there has also been an increase in the number of States who are combining State and Federal housing assistance. This usually takes the form of combining Federal below-market interest mortgages, rent supplements, or public housing leasing contributions on the top of State-financed below-market interest obligations.

3. Relationship of Federally-assisted housing to Federal Planning and Community Development Assistance-- At the present time, the relationships of Federal housing assistance programs to comprehensive planning program and community development programs are fragmented. They are based on a series of individual procedures and arrangements. Thus, there are separate housing clearances for comprehensive planning (The A-95 process), environmental impact, and site selection criteria. There is an informal priority for federally-assisted housing related to urban renewal but no firm linkage between the two. The recently-published NAHRO study on Housing in Metropolitan Areas: Roles and Responsibilities (already cited) contains detailed observations on both planning and community development relationship to housing, as well as recommendations for future federal action.

4. Assistance Related to the Housing Unit, to the Family, and Combinations Involving Both:

Basically, federal housing assistance over the past 40 years has been focused on the housing unit, with a major emphasis on housing production. The major instruments of federal assistance have been such financial mechanisms as the federally-guaranteed mortgage, the tax-exempt bond, and the below-market interest rate mortgage or loan.

The federally-assisted housing programs have utilized contributions to the family, rather than to the housing unit only to a limited extent and then usually tied in some way to a housing unit. The Section 23 public housing leasing program containes the largest reservoir of experience relative to housing assistance contributions related to the family; in this case, however, the total contribution is restricted to the equivalent contribution for newly-developed public housing in the community. There is a limited amount of experience with direct housing contributions to families under relocation housing payments for families displaced by federal and federally-assisted programs. The largest volume of experience with direct housing contributions to families has been under the public assistance programs rather than the housing programs. Housing Allowance Demonstration Program, authorized by the Congress in 1970, will provide the first systematic analysis of the housing allowance to the family as a technique for assistance.

A few federally-assisted housing progams utilize a combination of assistance to the structure and to the family. The rent supplement program provides for a federal contribution to be used in conjunction with FHA-below market interest rate housing,

with the payment going to the sponsor to reduce rents for families in rent supplement units. Since 1961, the public housing program has moved in the direction of expanding family-related contributions, first through special allowances for elderly and other types of low-income families; and after 1969, through an expansion of housing operating subsidies combined with a ceiling on the rents of public housing residents. The payments in both rent supplements and public housing go to the housing sponsor to assist in reducing rents, rather than to the family itself.

5. Assistance for Rehabilitation and Conservation of Existing Housing

While existing federal housing assistance can generally be utilized for existing housing as well as for new construction, there has been no coordinated or focused direction toward the preservation and rehabilitation of the existing housing stock, comparable to that in new construction. Federal assistance for housing rehabilitation has been approached through a variety of separate program approaches.

The earliest approach to federally-assisted housing rehabilitation (the FHA Title I Home Improvement Loans, adopted in 1934) as well as the complementary extension of the program (the Section 302(k) program adopted in 1961) deal largely with improvements and modernization of single family homes utilizing loan amounts and credit terms not usually applicable to changing urban neighborhoods. A further extension of this approach, the 220(h) loan insurance program adopted in 1961 for urban renewal areas, has seen only minimal use since it has generally been more advantageous to refinance existing mortgages to cover the cost of major repairs.

Another basic approach to the rehabilitation of housing has been tested under the basic federally-assisted housing programs for low and moderate income families. However, the total volume of activity has been comparatively small; in the year ending

June 30, 1972, rehabilitation under all of the HUD and Agriculture Housing programs is estimated to total 31,700 housing units, only a minimal proportion (seven percent) of the total of 436,300 housing units estimated to be assisted under these program in in this year.

Significantly, the proportion of units to be rehabilitated under the assisted housing programs as part of the 10-year national housing goals adopted by the Congress in 1968 was reduced as a result of the Administrative revision in these goals made in 1969: the original 1968 goal had called for 2 million substandard housing units to be rehabilitated under the subsidized housing programs over the ten-year span while the revised 1969 goal reduced this estimate of need to 1 million units, representing less than four percent of the 10-year production goals. An additional factor which may well reduce the future number of rehabilitations under the homeownership assisted housing programs is the difficulty experienced by lower income purchasers of existing housing -- some of the units purchased involved units of inadequate quality which low income families were unable to maintain and defaulted back to the federal government.

A major point to be made about the rehabilitation of housing under subsidized housing programs, particularly relevant to the question of housing abandonment, is that they were individual transactions; it is unlikely that any significant number of housing units rehabilitated under these programs were part of an organized neighborhood rehabilitation effort.

Beginning in the mid 1960's a new series of federally-assisted approaches to housing rehabilitation involving a neighborhood dimension were adopted. These programs included the Section 117 Concentrated Code Enforcement program adopted in 1965, encompassing not only intensive neighborhood enforcement of the housing code related to individual structures, but also provision of essential public facilities such as

street improvement, lighting, tree planting, sidewalks, curbs and gutters. Companion tools often utilized in conjunction with the 117 program were the 312 rehabilitation loan program, a direct federal loan at 3 percent interest for individual property owners, adopted by the Congress in 1964; and Section 115 direct rehabilitation grants for low-income home owners. The combination of these three resources has gradually evolved into a popular and potential rehabilitation approach in local communities.

Another neighborhood-wide rehabilitation approach was adopted by the Congress in 1966 -- Section 221(h) -- a program of FHA-insured 3% interest-rate mortgages to permit non-profit organizations to finance the purchase and rehabilitation of deteriorating or substandard housing for resale to low-income purchasers. While successful in some local experiences, this approach has not been stimulated by federal encouragement nor has it generated a significant volume of rehabilitation activity; in fiscal 1972 only 14 dwelling units were rehabilitated under this pro-

The federally-assisted effort with the broadest capacity to deal with the elements of changes in a neighborhood's physical environment -- including the capacity to demolish adverse uses, to spot clear buildings, to work with non-residential as well as residential properties and to make shifts in use of property to accommodate new needs -- is the urban renewal program. The Housing Act of 1954 expanded Title I of the 1949 Housing Act to cover actions designed to prevent the spread of slums and blight through the rehabilitation and conservation of blight and deteriorating areas. There has been significant accomplishment, and an increasing number of communities

undertaking urban renewal rehabilitation, particularly since 1961. Through fiscal 1972, a cumulative total of 832 urban renewalprojects have involved major rehabilitation of properties, including some 264,000 rehabilitated dwelling units.

6. Housing Assistance Programs Structured By Income Range

Traditionally, Federal housing assistance programs have been geared to serving certain income ranges of housing need. Thus, the public housing program, although utilized to direct its resources toward those "unable to afford housing on the private market" also was restricted by statute to admission limits 20 percent below available private housing. Under the pressures of program changes in the 1960's it has come increasingly to serve only the lowest income range. The 202 Direct Loan Program of 1959, and the various interest subsidy programs were primarily designed to serve the "moderate-income" range; just above the public housing range; rent supplements added to these units reduced some rents to the lower income category.

The structuring of housing assistance programs by narrow income ranges, and in particularly the restrictions placed on income eligibility, have tended to create "gaps" in coverage; some families unable to meet private housing costs are ineligible for housing assistance. At the same time, there is overlapping of income eligiblity under the various programs. In some localities, in particular, families eligible for public housing, have been drawn away by competing housing assistance programs.

Structuring housing assistance programs based on income ranges has also tended to obscure the varying housing requirements of various types of households.

7. Lack of Uniformity Among Housing Assistance Programs in Terms of Definition of Income and Rent Payment Requirements

Federal housing assistance programs have also been characterized by a variety of

varying requirements relative to deductions of income relative to eligibility for assistance and for rent; and varying rent payment requirements.

8. Changing Standards and Lack of Uniformity in Terms of the Quality of Design and Construction Among Federally-Assisted Programs.

Over the history of federally-assisted housing programs, there has been varying concepts of the level of design and construction quality that should be supported with federal assistance. Particularly in public housing and rent supplements, there has been a tendency to think in terms of "housing construction for the poor", without amenities. On the other hand, public housing has tended to be more durable in construction than some other housing assistance programs since it has an amortization period of 40 years, and has more occupancy by larger families. In a major breakthrough in the 1960's, public housing pioneered in development of well-designed housing for the elderly. There are still a variety of methods, among the assistance programs, used to determine cost limits for housing development; public housing now operates on a "prototype system"; FHA programs have limits based on maximum mortgage costs.

9. Diversity of Assistance Approaches

For the most part, Federal housing assistance programs are geared to dealing with one specific assistance technique; -- ie. utilizing one financing vehicle, generally to a limited range of structure types, particularly, one family houses and apartment developments. Only the public housing program, over the decade of the 1960's has developed any significant diversity in assistance vehicles and techniques. The Public Housing program now can utilize both new development and existing housing in a variety of structure types, for short as well as long periods of time. Through the "flexible formula", it can use federal annual contributions both in connection with financing

of long-term bonds, as well as short term payments to private landlords under a leasing program. It can develop new housing, or acquire existing housing (with or without rehabilitation), under a "conventional" Authority -- oriented development process, or under agreement with a private developer under the "Turnkey" method. This diversity provides opportunities to serve a wide range of household sizes and types, not possible in other federal assistance programs.

10. Geographic Coverage of Housing Assistance

FHA mortgage guarantees have been used in every State; every State now has enabling legislation to undertake public housing and has some public housing development. In terms of utilization of FHA-moderate income programs, which are newer, there is not such a dispersal among the States; they tend to be concentrated in areas where their financing provisions most clearly meet the housing market circumstances and are economically feasible. Public Housing serves a wide range of communities of all sizes; its program units are also widely distributed with as many located in the smallest communities under 25,000 population, as in the largest cities over 500,000 population. A main gap in coverage for HUD-assisted housing programs is in rural areas, where housing needs are only partically met by the farm-oriented housing programs of the Department of Agriculture, and where even the Farmer's Home Administration programs cannot serve the lowest income families.

11. Social Services Related to Federally-Assisted Housing

Traditionally, social services related to federally-assisted housing have been considered an obligation of the community social service structure in which the housing was located. It was not until the early 1960's that the federal agency authorized large local housing authorities to have "social service coordinators" on their staffs. Management personnel, at the project level, both in public housing and in other federally-assisted housing programs have traditionally provided some housing-related services such as instruction in use of equipment. Often,

housing sponsors provide space in housing structures for community service agencies. As the characteristics of occupants, particularly in public housing, shifted to low-income families with multiple problems, and to specialized household types requiring special services such as the elderly, there was an increasing demand for social services during the period of the 1960's. Various cooperative experiments were undertaken by HUD with the Department of HEW to bring social services to federally-assisted housing. Special grant programs for social services related to assisted housing were passed by the Congress, but appropriations to implement these grants were minimal or non-existent. In 1970, the public housing law was amended to provide that certain housing-related tenant services were eligible costs in a local housing authority budget; however, the severe restrictions on LHA budgets made such funding difficult, if not impossible. A potential breakthrough had begun to develop in the early 1970's when it became possible to match a 1/4 local housing authority contribution with 3/4 funding under social services authorized under the Department of HEW. A growing number of housing authorized began to utilize this arrangement, until 1972, when reductions in the HEW Social Service fund, by Congressional action, virtually eliminated access to matching funds for LHA's. While this action, and the subsequent administrative regulations, are being appealed, the prospect is not promising. In addition, assisted housing developments located in changing urban neighborhoods have been increasingly concerned about the problem of "security" in housing developments, opening the need for a further dimension of tenant services.

B. Evaluation of Existing Housing Programs

1. A Perspective of Program Evaluation

In March, 1971, the NAHRO Board of Governors issued a policy statement on recent developments in housing and urban development, with the following comment about the evaluation of existing programs:

> "Past efforts should be viewed in the realistic light not of how close we came to meeting ambitious goals, but what was accomplished under prevailing conditions with the resources provided -- and how much was learned about how to do the job better in the future."

If the "goal" of federal housing assistance programs is to place every American in good housing -- and lift every family receiving housing assistance out of poverty -- then existing programs have failed on both counts. Part of the problem with goals is that we have endorsed ambitious ones and then failed to deliver the resources to engage them.

In carrying out federally-assisted housing efforts over the past four decades, local communities have had to react and adjust to a constantly changing physical, economic and social environment. They have also had to live with limited, and often "stop and go" federal funding. Viewed in this light, the existing housing programs have made significant achievements. Local communities across the Nation have developed more than a million new dwellings for low and moderate income families, cleared acres of slum properties, and rehabilitated hundreds of thousands of existing dwelling units.

Have the "achievements" of individual communities utilizing existing housing programs been significant enough to place a tag of "success" on the programs as a whole? The answer is unclear becuase the programs, as they proceeded, did not have the performance and evaluation guidelines "built in" to make objective appraisals. There was no on-

going effort to determine what was working and not working -- and which particular method yielded the most for the program dollar. This lack of an objective, on-going evaluation process, makes it easy for "claims" and "counter claims" about the programs to thrive. It has also made it easy for every "bright new idea" to be sprung as "a new solution", or a "panacea" on the Washington scene. Sometimes, these ideas were adopted as national policy without adequate testing.

Lacking an on-going evaluation process for existing housing and community development programs, the most valuable evidence about "successes" and "failures" come from a close examination of the local program results; and from the tested experience of the cadre of local professionals who have learned the hard facts about land assembly and disposition, family relocation, developing and managing housing for low and moderate income families. The knowledge and expertise of these professionals is one of the most valuable residual benefits of existing program experience.

There is still time for a useful and honest appraisal of what we have learned from our past efforts. This assessment process will be far more rewarding and far less costly than throwing out all of our past experience, and starting over again. A great deal has been learned. We should not have to repeat the lessons over again. New program proposals shouldbe subject to the tests of past experience.

2. Some "Myths and Realities" about Public Housing

The lack of detailed and consistent information on operations of existing housing programs in many areas, plus the lack of objective standards and yardsticks for evaluation of program performance, has led to many unsubstantiated opinions about the operations of existing housing programs. Attached is a copy of the NAHRO testimony of April 12 before the Senate Committee on Banking, Housing and Urban Affairs on "Myths and Realities in Public Housing."

3. Current "Problem - Areas" in Program Administration

While beyond the scope this present paper, there are obviously a wide reange of administrative policies which represent problem areas. Some of these are related to legislative policy; others are administrative only. They include such questions as:

-- operating subsidy in public housing

-- welfare rent policy in public housing

-- high rent-income ratios in Section 236

-- inadequancy of mortgage limit ceilings for Section 235 and 236 in many higher cost areas

-- the quality of federal administration, relative to processing and approval of housing assistance applications

-- the quality of local administration, relative to the misuse of federal assistance

-- the degree of effectiveness of HUD national organization -- should Housing Production and Housing Management be separate?

-- should the same procedures apply to small as well as to large housing authorities?

-- how should the FHA guaranteed insurance program be related to the HUD structure?

-- the degree of effectiveness of the HUD decentralization: are the HUD Area Offices really working?

-- and many others.

All of these ares need to be identified and evaluated against objective criteria.

PART V

FEDERAL HOUSING ASSISTANCE: NEW APPROACHES

A. A Checklist of Key Policy Issues for Federal Housing Legislation

The analysis of the existing programs in Part IVnot only describes the approaches of the existing programs, but also their inconsistencies and shortcomings. Any major proposals for reform of existing programs must deal with these key elements:

-- How comprehensive shall the national housing effort be? Shall it be geared to serve all families who require housing assistance? What is the level of the Federal commitment?

-- What type of Federal financing method should be used, particularly in relationship to the Federal budget?

-- What should be the relationship between conventionally-financed housing, federally-guaranteed housing, and federally-subsidized housing? Between publicly-assisted housing and the private housing market?

-- To what degree is rehabilitation and preservation of the existing housing stock to be addressed?

-- What special housing requirements are necessary in new growth areas, and in new communities?

-- What shall be the relationship of federal housing assistance programs to federal planning and community development assistance programs?

-- What financing and development techniques should be involved? One method? A few selected methods? A diversity of methods to be used at the option of State and local areas?

-- What should be the relationship of federal housing assistance programs to State and local housing assistance programs?

-- How shall Federal housing assistance be delivered to the State and local level? What will be the role of the federal government?

-- Who shall receive housing assistance -- the housing sponsor, the family, or both?

-- How shall the housing assistance be structured -- by income range, by type of household, by housing market inadequacies?

-- What eligibility requirements are necessary? Should there be deductions from income? What is the concept of ability to pay?

-- What shall be the quality of design and construction in federally assisted housing programs?

-- How shall social or tenant services be provided for federally-assisted housing?

B. Recent Housing Reform Legislation: A Single Variable Subsidy Approach

Over the past three years, major legislative changes in existing housing programs have been considered in the Congress. Basically, these proposals were:

-- The Administration's proposal for "Consolidation and Simplification" of housing programs introduced in 1971 (S. 2049, HR. 9331).

-- The "Housing Reform Amendments", to this Administration Bill (Nos. 788 and 789) by Senator Edward W. Brooke and Walter F. Mondale; based on proposals by NAHRO.

-- The Housing Titles of the omnibus Housing and Urban Development bill of the Committee on Banking and Currency (HR. 9688).

In March 1972, the Senate passed an omnibus Housing and Urban Development Act incorporating major portions of the Administration's Consolidation and Simplification bill and the Brooke-Mondale Housing Reform Amendments. However, the House bill was not cleared for action in the House of Representatives in 1972, and no legislation was enacted.

1. A Single Variable Subsidy Approach: 1972

The Administration's bill did not propose any major "reforms" of existing programs, beyond reducing the number and complexity of existing program. However, the NAHRO proposal (which became the Brooke-Mondale Housing Reform Amendments, incorporated in many respects in the Senate-passed bill S. 3248) would have substantially altered the existing housing assistance programs under what can be described as a fully-consolidated housing assistance program designed to serve all families who cannot afford housing on the private market -- a single variable subsidy approach.

These Housing Reform Amendments were basically designed to respond to some of the shortcomings and inequities just described in Part IV: the gaps in coverage and overlapping created by the fact that existing housing assistance programs are structured by narrow income ranges (No. 6); the lack of uniformity among existing programs in terms of income deductions and rent payment requirements (No. 7); changing standards and lack of uniformity in terms of the quality of design and construction (No. 8); and the problems resulting from the fact that most of the very lowest income families receiving housing assistance were concentrated in public housing (a result of the income structure, No. 6).

The major unifying element in the proposal was the concept of a single variable subsidy payment to the housing sponsor from the federal government to make up the difference between the cost of housing produced under various financing mechanisms (tax-exempt bonds, below market interest rate mortgages), and the ability to pay of the family to be housed. The reform legislation also provided for uniform income limits, deductions from income, rent payment requirements and quality of design and construction without regard to sponsorship (public agency, non-profit, limited profit), or financing mechanism. A complete description of the original NAHRO proposal, as well as the Brooke-Mondale Reform Amendments, and the version adapted in S. 3248 by the Senate are attached to this statement.

Basically, the 1971 NAHRO Proposal represents one method for reforming existing housing assistance programs into a more uniform and internally-consistent housing mechanism. It provides for a federal housing payment to be built on below-market interest financing mechanisms, to the degree necessary to meet the gap in ability to pay of the individual family. The reform proposal also incorporates the concept of a cross-section of

income in individual housing developments, by requiring that all housing sponsors serve 20 percent of very low income families; this is to avoid the concentrations of very low income families in any project or program.

2. Special Public Housing Reform Amendments: 1972

Among the significant reforms embodied in S. 3248, relative to public housing was the requirement for a minimum rent (equal to utility costs); report language accompanying this bill calling for a payment by welfare agencies to housing authorities of a rent equal to operating costs on behalf of welfare residents. The House bill (HR. 9688) also contained a minimum rent proposal, and a requirement for direct vendor payments by welfare agencies to housing authorities to cover rents of public assistance recipients. The NAHRO recommendation on welfare rents is that the public assistance recipients living in public housing should pay up to 25 percent of their public assistance allocation for rent, (depending on the regular LHA rent schedule); with the welfare agency making a direct payment to the housing authority to make up the difference between this family payment and operating cost rent.

3. Other Proposed Housing Amendments: 1972

The Brooke-Mondale Housing Reform Amendments, also contained recommendations: (a) to provide incentive grants to any local government jurisdiction to offset a portion of the cost of increased public services, due to the housing development; (b) full tax payments for all new public housing; (c) incentives to local housing authorities to combine into metropolitan and regional agencies; and (d) an expanded national housing goal requirement, incorporatingthe preparation of local and state housing goals.

The House Bill (HR. 9688) also included provisions for incentive grants for public services related to housing, and expanded housing goals requirements. The House bill also contained a major new title on Housing Rehabilitation. Although not emerging in the final draft, a proposal to provide a new housing delivery system for housing assistance prompted discussion and debate.

C. Alternative Approaches to Assistance Mechanisms

The analysis of existing programs, and the checklist of major policy issues relative to federal housing assistance provide an important base for consideration of new approaches.

In addition, the 1972 NAHRO Housing Reform Proposals described in Section B represents one way in which some of these policy issues could be resolved -- by the adoption of a single variable subsidy program applying to all families who require housing assistance.

There are other alternative approaches which might be considered. Two approaches that NAHRO believes merit exploration are:

-- a household needs approach

-- a housing market approach

1. A Household Needs Approach:

Housing assistance needs of individual households appear to break down into three general areas:

a. Households who require assistance only to meet the cost requirement of housing available on the private market.

b. Households who require special housing arrangements, support facilities, and services in housing not generally produced in the private market, ie. elderly, handicapped, single non-elderly persons, etc.

c. Households with income deficiencies beyond housing, ie. require general income support to meet minimum family needs, as well as special services.

It is not probable that any single housing assistance mechanism can meet the requirements of all of these groups, although a single variable subsidy system

would provide one possible approach. However, a useful exploration would be to consider appropriate separate housing assistance mechanisms which might be tailored to the specific needs of each general household group. This would also permit more specific comprehensive assistance programs to be developed for the second and third household groups, involving sources of services and support beyond housing assistance. In particular, needs of the third group might well be approached through developing housing assistance on top of a program of federal income support. A condition to be avoided in the household needs approach is the separation of the second and third types of households by themselves, isolated from the main stream of the housing market and community life.

2. A Housing Market Approach

In addition to the diverse needs of particular households, there is a need to provide specific responses to a diversity of local housing markets in both urban and rural areas. The opportunities for servicing particular household needs in a local situation will vary considerably in terms of the availability, type and cost of housing on the private market, and these opportunities may fluctuate over time. Thus, a federal housing assistance approach could be devised to provide a range of assistance options geared to meet the shortfalls of local housing market; such as, a production assistance mechanism to meet gaps in housing supply; an existing housing acquisition mechanism to permit purchase of housing in over supply; a housing rehabilitation assistance mechanism to bring housing back into use; a housing allowance or leasing mechanism to take advantage of vacancies in the existing supply; and other such circumstances. Such a range of assistance options would permit a locality to select those best suited to its local situation. The public housing program, among the existing programs, perhaps best represents this approach, in the range of assistance options available.

D. Rehabilitation and Preservation of the Existing Housing Stock

The information previously given in this report relative to the dangers to our existing housing stock (Part II -- National Housing Needs and Requirements); and the experience with our existing housing rehabilitation (Part IV -- Assistance for Rehabilitation and Conservation of Existing Housing) supports a far stronger emphasis for this effort in our national housing assistance efforts. Again, however, these needs should be overlaid with the particular needs of individual households and

to the particular characteristics of the local housing stock. A program for housing rehabilitation must obviously contain both assistance to the individual property or property owner, and to neighborhood and community-wide preservation programs.

E. Concepts of Ability to Pay For Housing

A common element applying to all of the considerations for federal housing assistance, is an equitable standard for determining the ability to pay for housing by a particular household in a particular local housing market. Such a standard is not fulfilled by a single rent to income (or payment to income) requirement in the Federal Statute. It is clear that we need much more knowledge about housing payments relative to household ability to pay. Our operating experience demonstrates that high rent-to income ratios for federally-assisted housing in comparison with private housing market patterns, causes families to leave (or not apply for assisted housing), even though their private housing situation is inadequate. We also know from experience that housing expenses as part of a minimum family budget must stay within a certain range or other family needs suffer. In determining an equitable standard, we must also take into consideration all of the federal housing benefits occuring to a household, such as income tax deductions for interest payments on mortgages. This subject requires extensive exploration.

F. Administration and Management Consideration

Whatever the housing assistance approaches, there are important considerations relative

to the appropriate roles of federal, local and state government, as well as the long-term managerial aspects of the assistance. Too often, there has been a lack of clear federal objectives and guidelines, and a lack of flexibility for localities and states to develop their own program to meet these guidelines. Too often also, the focus on housing assistance has been solely on getting housing produced, to the neglect of the implications of long-term management.

C. A Delivery System For Federal Housing Assistance

The nature of the most effective delivery system (or systems) to distribute federal housing assistance to local and state levels depends to a considerable extent on the options developed for federal housing assistance.

It is quite possible that different housing assistance options can be handled most effectively under different delivery mechanicms, ie. there may be no one best delivery system. Further, at the present time there is considerable activity testing out the capacity of new institutions in the housing and community development field. This can be seen in such mechanisms as the "Greater Hartford Development Process", combining public and private interests in joint ventures. There is a considerable growth in the number of quasi-public housing development corporations. There is a trend to consolidate local housing authorities into metropolitan and regional agencies. It would seem untimely for a single delivery system mechanism, particularly one which would tend to cut-off the experimentation with new institutional development, to be mandated under federal statute or regulation. In any event, there is a question as to whether federal legislation or policy should unduly limit the option of localities or States to select their own institutional devices suited to their needs.

Questions for Robert Maffin, Executive Director, NAHRO, submitted by Senator Brooke

1.) What is the current inventory of public housing units and their value?

2.) S. 2182 makes certain changes in the rent requirements for public housing units. Most importantly, it requires a minimum rental for any dwelling unit equal to 40% of the operating costs attributed to the dwelling unit.

a.) Could you outline for the Subcommittee the impact of this minimum rent provision on the rent limitations imposed under the Brooke Amendments?

b.) Do you think the minimum rent requirements in S. 2182 are necessary?

c.) Will the minimum rent requirements provide sufficient additional rental income to put public housing authorities on a sound financial basis?

d.) Have you any information on how much additional rental income will be generated by the adoption of the minimum rent requirements contained in S. 2182?

3.) In addition to establishing a minimum rent for public housing units, S. 2182 defines income for the purpose of determining rent in such a way as to deny families the deduction of 5% from gross income which they are permitted under present law and to deny elderly families the 10% deduction they are permitted under present laws.

a.) Do you think this provision is necessary?

b.) Do you have any information on how much additional rental income will be generated for public housing authorities by the removing of the 5% and 10% deductions from the income definition?

4.) a.) Do you have any information regarding the effect on non-welfare, elderly, public housing tenants of simultaneously (1) imposing a minimum rent requirement and (2) denying the 10% deduction in defining income?

b.) Could the adoption of the minimum rent and income definitions contained in S. 2182 have the effect of forcing elderly tenants living on social security to move out of public housing?

5.) Do you have information regarding the number and type of public housing authorities which are experiencing financial crises?

b.) Do you have any information regarding the causes of the deterioration in the financial status of public housing authorities other than loss of rental income?

c.) How many public housing authorities will be unable to meet their financial obligations by the end of Fiscal Year 1974 if rent rent requirements are not changed?

d.) Will any public housing authorities go bankrupt in 1974 if rent requirements are not changed?

August, 1973

RESPONSES TO QUESTIONS SUBMITTED BY
SENATOR BROOKE TO ROBERT MAFFIN
EXECUTIVE DIRECTOR, NAHRO, following
Testimony Before the Senate Committee
on Banking Housing and Urban Affairs,
July 27, 1973

1. What is the current inventory of public units and their value?

At the end of Fiscal Year 1973 (June 30), the Department of HUD estimates that there were 1,111,500 housing units under management in 8,700 separate housing developments. The market value of this investment has not been precisely determined, but based on original development costs would probably be from 30 to 40 billion dollars.

2., 3., 4. These three questions relating to the impact, the necessity, and the potential rental revenue which might be generated by the provisions in S. 2182 relating to a minimum rent requirement, and adjustment in the definition of income must be considered together since they inter-relate.

a. The impact of the minimum rent and income definition adjustments, as set forth in S. 2182, on non-welfare tenants (largely elderly households) from the individual project data which we have analyzed, would result in rent increases averaging about $5 per month. After the increases

in rent, the rent-to-income ratios of over three fourths of those affected would be 25 percent of gross income. Studies by the National Urban League in June, 1971, concluded that the ratio of shelter costs to income for elderly in subsidized housing should be around 30 percent. The proposed minimum rent and adjustments in income definition should not cause moveouts by elderly tenants on social security.

These estimates appear to be slightly higher than the information supplied to the Senate Subcommittee by the Department of HUD in July, 1973, which projected a minimum rent of $26 on a national basis, (based on 40 percent of operating cost, including project-supplied utilities) and an average rent increase of $4 per month (including a $2 increase as a result of changes in the income definition).

b. The minimum rent and income definition adjustments proposed in S. 2182 have three advantages:

-they would insure that all families in public housing would pay some rent, without requiring a rent-to-income payment beyond the means of non-welfare households.

-they would assist in generating some rental revenue for local housing authorities.

-they would set a limit on the operating subsidy required from the federal government, (together with the provision for a 20% average rent to income ratio in Section 9(b) of S. 2182), by requiring a specified rent contribution at the minimum rent

level. This should assist in gaining approval of Federal operating subsidies.

c. The provisions on welfare rent in S. 2128, if amended slightly so that they would apply to welfare systems in all States, could be a major factor in improving the fiscal capacity of local housing authorities. This could produce additional rental revenue of at least $77 million (which was the amount of revenue lost to LHA's as a result of the 1971 welfare amendment). It would also insure that housing subsidies would not be used to make up non-housing items in inadequate welfare budgets, but solely to meet housing requirements.

d. The Department of HUD estimates for the Senate Subcommittee in July, 1973 indicated that a minimum rent based on 40% operating cost including project-supplied utilities, and the change in income definition, would produce an annual increase in rental income of about $54 million. This would not, in itself, put local housing authorities on a sound financial basis, but coupled with changes in welfare rents, (estimated to produce additional revenue of at least $77 million) it could meet a significant part of the gap between currently-available federal operating subsidies and total LHA requirements.

5. Information on the Financial Status of Public Housing Authorities

The Department of HUD has indicated that as of June 30, 1972, there

were 181 housing authorities in "serious financial condition" housing more than 43 percent of all public housing tenants, and that the number of authorities in such condition has probably risen since that date. To be recorded as in "serious financial condition" means that there is a gap of over $10 per unit per month between operating receipts and routine expenses. The number of housing authorities in this status has risen from about six authorities in 1970 to the present number. The causes of the deterioration of the financial status of public housing, other than the loss of rental income because of Congressionally-mandated rent reductions, are increasing occupancy by the lowest income groups, particularly elderly, who pay lower rents at the same time as the cost of operations is rising due to inflation in the general economy.

The current financial status of public housing is also related to the inadequacy of the "Interim Formula" adopted by HUD in November, 1972 to allocate operating subsidy. There are three basic defects in this formula:

(1) The formula uses the fiscal year 1972 as a base year to calculate local housing authority expenses; in this year many housing authorities had already deferred maintenance and made cutbacks in services; so that FY 1972 is not a realistic expense year.

(2) The interim formula uses an inflation factor of only 3 percent as the basis for increased federal assistance; the more accurate factor would be at least 5.5 percent.

(3) The interim formula required housing authorities to reduce their reserve back to minimal amounts (to 40% of normal maximum) using reserves to offset operating deficits before receiving any federal operating subsidy. This reserve reduction took place in fiscal year 1973 and cannot be repeated again. This leaves a "short-fall" in resources for the 1974 fiscal year.

We have no present information as to which local housing authorities might not be able to meet their financial obligation during fiscal year 1974, but it is clear that a number of local housing authorities are reaching a point where a major collapse of services, physical facilities and living environment could occurr within the year. As the Department of HUD stated in its 1973 appropriations testimony, "the term 'bankrupt' has no meaning in a publicly-aided program. If an LHA were totally unable to operate, provision exists for that LHA to go under Federal ownership and operation."

The CHAIRMAN. Now, Mr. J. C. Miller, executive director of the Housing Authority of the city of Montgomery, Ala. Mr. Miller, I have this very comprehensive presentation that you have prepared. That represents your statement in effect, doesn't it?

Mr. MILLER. Yes, sir, it does.

The CHAIRMAN. All right. I suppose we will have to do some—do you have a prepared statement?

Mr. MILLER. Yes, sir. We have a short, three-page statement.

The CHAIRMAN. Fine. I was just going to say we would have to do some selection on that to get it into the record, but your typed statement will be printed in its entirety in the record. You may present it as you see fit—read it, discuss it or summarize it, however you want to present it, and for the benefit of the record, will you give the reporter the name of the young lady with you?

Mr. MILLER. Very happy to. This is Mrs. Pat Morgan, administrative assistant, and also in charge of all new projects for the housing authority.

STATEMENT OF J. C. MILLER, EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF THE CITY OF MONTGOMERY, ALA.; ACCOMPANIED BY PAT MORGAN, ADMINISTRATIVE ASSISTANT

Mr. MILLER. Senator, to you and the committee, we do appreciate, on behalf of the authority employees, this privilege of appearing before you to submit our program to you. We hope in this booklet there is information that will show what we are trying to do toward providing housing for the low-income residents of our city.

The CHAIRMAN. Well, it will be part of our committee's files and various members of the committee will be very glad to look through it. I will urge them all to go through it because you have done a tremendous job in preparing it.

Mr. MILLER. We appreciate that and we appreciate the interest and concern that this committee shows in the housing problems.

The employees of the Montgomery Housing Authority are a very dedicated group of people, dedicated not only to furnishing housing, but to act as a means to foster richer human development and upward mobility and growth to the residents. This involves establishing an effective communication with resident councils and community leaders, explaining future plans, listening and sincerely evaluating resident criticism and complaints, working and making plans together rather than dictating to them. We try to act as an agent through which local services are made available to authority residents, including employment opportunities and other amenities or improvements which are not within our jurisdiction. We realize that with each application for admission to an authority unit there is an opportunity not only to provide housing, but to help someone achieve or regain his self-dependence, pride and personal growth, and to make him aware of his rights and privileges and to respect the same of others.

An efficiently managed housing program for low-income people is rather hard to define, but a report was recently compiled indicating that the Montgomery Housing Authority has helped 263 families in

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the last 2 years to become homeowners, working and paying their own way in our society.

The CHAIRMAN. I believe I would like for you to give that statement again and say it loud and clear.

Mr. MILLER. Thank you, sir; we are rather proud of that statement, too. In the past 2 years, we have helped 263 families to move on out of the housing projects and to become homeowners themselves.

The CHAIRMAN. You mean move out of public housing?

Mr. MILLER. Yes, sir, out of public housing.

The CHAIRMAN. We used to refer to that as graduating.

Mr. MILLER. Well, that is a good term. That's very good. We did that by counseling and various methods and spending a lot of time with the people, and we feel like that is part of the program, rather than just letting maybe the housing projects become housing of last resort—just getting there and staying there. So we think that is progress.

The CHAIRMAN. Well, other housing authorities may have done as well, but I thing that is a first—certainly the most encouraging statement I have heard. I can remember back many years ago when public housing was not as popular as it later grew to be. We used to argue that for public housing really to serve its purpose that efforts should be made to move those people up, and, as I said, help them to become able to graduate from public housing and go into homeownership.

Mr. MILLER. We were going to continue in saying that we find it very hard to maybe evaluate the progress such as this in a dollar and cent, profit and loss figure. In fact, we hadn't learned yet how to do that. But we do feel like in helping someone do this that we have achieved part of our responsibility in providing housing. Of course, we don't want to give the impression that we are not dollar-conscious. We are aware of that. We know that without money we cannot continue to function in any capacity. We can't do any of these things. In fact, we can't even exist.

The CHAIRMAN. By the way, at this point let me ask you, who is chairman of the Housing Authority now?

Mr. MILLER. That's another thing we are very proud of. We were going to mention that in the latter part of this statement.

The CHAIRMAN. Well, I want to get it in the record before you got too far.

Mr. MILLER. Mr. Lewis Odom is serving as chairman of our board of commissioners now and doing a very good job. We wanted to recognize him and he is certainly an asset to the entire authority.

The CHAIRMAN. You know he had considerable service in the Senate. He first came up in 1955 and served as a staff member on the Small Business Committee of which I at that time was chairman, and then later he moved over to my office as my administrative assistant, and then still later, when I became chairman of this committee, he became the staff director of this committee and continued in that position until he decided to go back home to practice law. So he has had long experience in housing.

Mr. MILLER. Well, we are indebted to you and this committee in more ways than one, because he is certainly an asset to us in the Montgomery Housing Authority.

We have some charts and also a few pictures that we hope will reflect the type of operation that we have in Montgomery. We borrowed a phrase from one of our residents that I'd just like to repeat for the record. Mr. Samuel Moore, one of our residents, came up with a slogan, and we try to abide by this every day. It is: Coming together is a beginning, keeping together is progress, and working together is success. We asked our residents—in fact, we had a little competitive contest going on to see who could come up with the best slogan, and Mr. Moore did. We thought it was very good.

We would like to call your attention to pages 4 and 5, if we may, We will run through it rather hurriedly. This reflects the financial condition of the Montgomery Housing Authority for the last 10 years.

In 1964, we had a total income of receipt per unit per month of $31.47; and in the budgeted year 1974, $33.57; with total expenditure of $47.50 per unit-month. So you can see that's our problem there. In 1970, we had a rent income of $41.54, with an operating expenditure of $32.21, with a higher reserve figure. Then with a decrease in rents and an increase in operating expense, utilizing our reserve, this brought the figure over to the budgeted 1974 figures. So that's the financial picture in a nutshell right there.

Now, we would like to show you the rent range which affects our entire program. We have broken down there the percentage of people that are paying zero rent. If you will notice, in 1973, 10 percent of our residents, or 262 families, were paying zero rent—no income at all from them. And 22 percent of them were paying between $10 and $20 a month, or 576 families; 36 percent, or 943 families, were paying between $20 and $40. That's a total of 1,781, or approximately two-thirds of our conventional programs, that are paying less than our operating costs of $47.50 per unit-month.

The CHAIRMAN. You gave us the percentages there, but on the total, what would that be—the composite figure?

Mr. MILLER. About two-thirds are paying less than operating costs. Is that what you have reference to? About two-thirds of all of our residents are paying less than the operating costs per unit-month.

The CHAIRMAN. Well, how do you stand on the operation from a profit-and-loss basis?

Mr. MILLER. We have been using our reserves. When the rent income went down, we had to dig into our reserve. Because of having a real tight operation over the period of years, we were able to build up and maintain a high maximum reserve figure.

The CHAIRMAN. Let me ask you, is this the effect of the Brooke amendments?

Mr. MILLER. Yes, sir.

The CHAIRMAN. There is another rollcall, and I am going to have to go to it, so I will ask the committee to stand in recess until I get back or until Senator Stevenson gets here. He is coming soon and he may get back before I do. I would like for you to discuss the Brooke amendment, and Senator Brooke himself has proposed some questions. He can't be here today, and he has proposed some questions be propounded. They are very brief, and I may just ask you to comment on them. If not, or if you prefer, you can take them and give us answers in writing for the record.

Mr. MILLER. Whatever your pleasure is.

The CHAIRMAN. You might be looking at these while I'm gone. The committee will stand in recess until one of us gets back.

[Recess.]

Senator STEVENSON. The hearing will come to order. I will preside until the chairman returns.

May we continue, Mr. Miller. I believe before we recessed, the chairman had propounded certain questions to you. Would you continue with your answers to those questions, please?

Mr. MILLER. Thank you, sir. We were discussing the percentage of the rent range, and we were giving percentage figures on page 7, wherein we were giving percentages there of our rent range, and we had just said that out of 2,622 families, 1,781 of them, or two-thirds, were paying less than operating costs per unit-month, which results in a deficit of $438,000 per year. Of course, the reason for that is the rent decrease, the dwelling rent income. This was on the conventional program that we are talking about now and——

Senator STEVENSON. What would be generated for the Montgomery Housing Authority if we were to adopt provisions in S. 2182 requiring a minimum rental for any dewelling unit equal to 40 percent of the operating cost attributable to the unit?

Mr. MILLER. We did some mast calculations on that in an attempt to have an answer for that, and as we have just repeated, 10 percent of our families are paying a zero rent, or 262 families; 22 percent, or 576 families, are paying an average of $15 a month; and with an operating cost of $47.50 per unit-month, by increasing this up to 40 percent of these 800-some families, we feel it would give us an annual increase of $87,000 per year, which would not, of course, get us out of the deficit, but it would certainly help.

Also, one other thought behind that, we are of the opinion that everybody ought to be paying something, and 40 percent or some percent of the operating cost per unit-month seems to us a very fair way that everybody would be paying something. We feel like with something coming out of our pocket and paying it does away with the feeling that somebody is giving us something and might make us take better care of what we are living in, thereby reducing the cost of upkeep of the apartment.

Senator STEVENSON. We have one further question which you might prefer to answer for the record after this hearing. What additional rental income would be generated for the Montgomery Housing Authority if you were to adopt income definitions contained in S. 2182 which in effect abolishes the 5-percent deduction from gross income from families, and the 10-percent deduction from gross income for elderly families?

Mr. MILLER. We just saw that question, and we would like to reply to that in writing, sir.

Senator STEVENSON. We would appreciate it if you would.

Thank you very much, Mr. Miller, for your helpful testimony.

Mr. MILLER. Thank you, sir.

[Complete statement and additional information follow:]

THE HOUSING AUTHORITY OF THE CITY OF MONTGOMERY, ALABAMA

Mr. Chairman and other members of this Committee, we appreciate this opportunity to appear before you in an attempt to show what the Housing Authority in Montgomery, Alabama, is doing in trying to provide decent, safe and sanitary housing for the low income residents of our city. We deeply appreciate your interest and concern in this very important responsibility.

The employees of the Montgomery Housing Authority are a very dedicated group of people, dedicated not only to furnishing housing, but to act as a means to foster richer human development and upward mobility and growth to the residents. This involves establishing an effective communication with resident councils and community leaders, explaining future plans, listening and sincerely evaluating resident criticism and complaints, working and making plans together rather than dictating to them. We try to act as an agent through which local services are made available to Authority residents, including employment opportunities and other amenities or improvements which are not within our jurisdiction. We realize that with each application for admission to an Authority unit, there is an opportunity not only to provide housing, but to help someone achieve or regain his self-dependence, pride and personal growth, and to make him aware of his rights and privileges and to respect the same of others.

An efficiently managed housing program for low-income people is rather hard to define, but a report was recently compiled indicating that the Montgomery Housing Authority has helped 263 families in the last two

years to become home owners, working and paying their own way in our society. We feel very strongly that results such as this lead to goals being reached, and public housing being something other than "Housing of Last Resort." We have not yet learned how to measure the degree of success in providing housing and a human development program in a profit or loss dollar figure. We do not feel that we are in existence to make a profit, but for an even more important reason - that of improving the social and economic condition of the less fortunate families. Yet we do not want to give the impression that we are not money conscious, because we realize that without money, we cannot continue to function in any capacity. With rising operating costs far exceeding rental income, some adjustments need to be made. In regard to rent income and operating expense, in fiscal year ending March, 1970, our rental income was $35.42 and operating cost per unit month was $32.21. We were at a maximum reserve fugure. We would appreciate your reviewing the following charts which will reflect how the implementation of the Housing Act of 1969 affected these figures, seriously threatening our program. We are sympathetic with the Brooke amendments, but because we did not receive the intended subsidy, we are forced to overlook some of the most needy families in an attempt to remain financially solvent. In so doing, we are not sure we are housing the people for whom the program was intended. Also, while looking for this type of income, our vacancies increase, thereby encouraging vandalism on the vacant unit.

It is our belief that a minimum rent or a rent based on the unit size would not only help the financial situation, but would actually help the residents by instilling some sort of self-reliance and feeling that

they are not being given something, but are paying their own way. This feeling of self-respect and appreciation is a common need to all of us everywhere.

We hope the following charts will reflect the past, present and projected financial condition of the Montgomery Housing Authority, and remembering that someone once coined the phrase, "One picture is worth a thousand words," we hope the pictures will exemplify the interest and activities involving the community, as well as that of the residents and employees, toward making the Montgomery Housing Authority communities a pleasant place in which to live. We have adopted a slogan at our Authority submitted by a good friend and resident, Mr. Samuel Moore:

"Coming together is a beginning.
Keeping together is progress.
Working together is success."

We try to abide by this daily as we go about our assigned duties.

In conclusion, we would like to express our appreciation to the members of our Housing Authority Board of Commissioners for their guidance and help in implementing our program, particularly our Chairman, Lewis G. Odom, Jr., who has served this Committee as Staff Director and General Counsel. Mr. Odom was elected Chairman immediately upon his appointment to the Board in August, 1971. His knowledge of and experience in the housing field has been invaluable to our program, and we want to express our appreciation to him publicly.

Respectfully submitted,

J. C. MILLER, JR.
Executive Director

THE HOUSING AUTHORITY OF THE CITY OF MONTGOMERY, ALABAMA

CONVENTIONAL HOUSING

YEAR	1964	1965	1966	1967	1968
PROJECTS	9	9	9	9	9
UNITS	1,624	1,624	1,624	1,624	1,624
UNIT MONTHS	19,488	19,488	19,488	19,488	19,488
	PER UNIT MONTH				
DWELLING RENT	$28.38	$28.47	$28.99	$30.37	$31.04
TOTAL RECEIPTS	$31.47	$32.76	$33.28	$34.89	$35.51
TOTAL EXPENDITURES	$27.12	$25.16	$25.76	$27.13	$28.20
DIFFERENCE	$4.35	$7.60	$7.52	$7.76	$7.31
PROVISION FOR RESERVE	($2.40)	$2.07	$.23	$2.00	$2.40
ADDITIONAL FEDERAL OPERATING					
RESIDUAL RECEIPTS FOR FISCAL YEAR	$6.75	$5.53	$7.29	$5.76	$4.91

THE HOUSING AUTHORITY OF THE CITY OF MONTGOMERY, ALABAMA

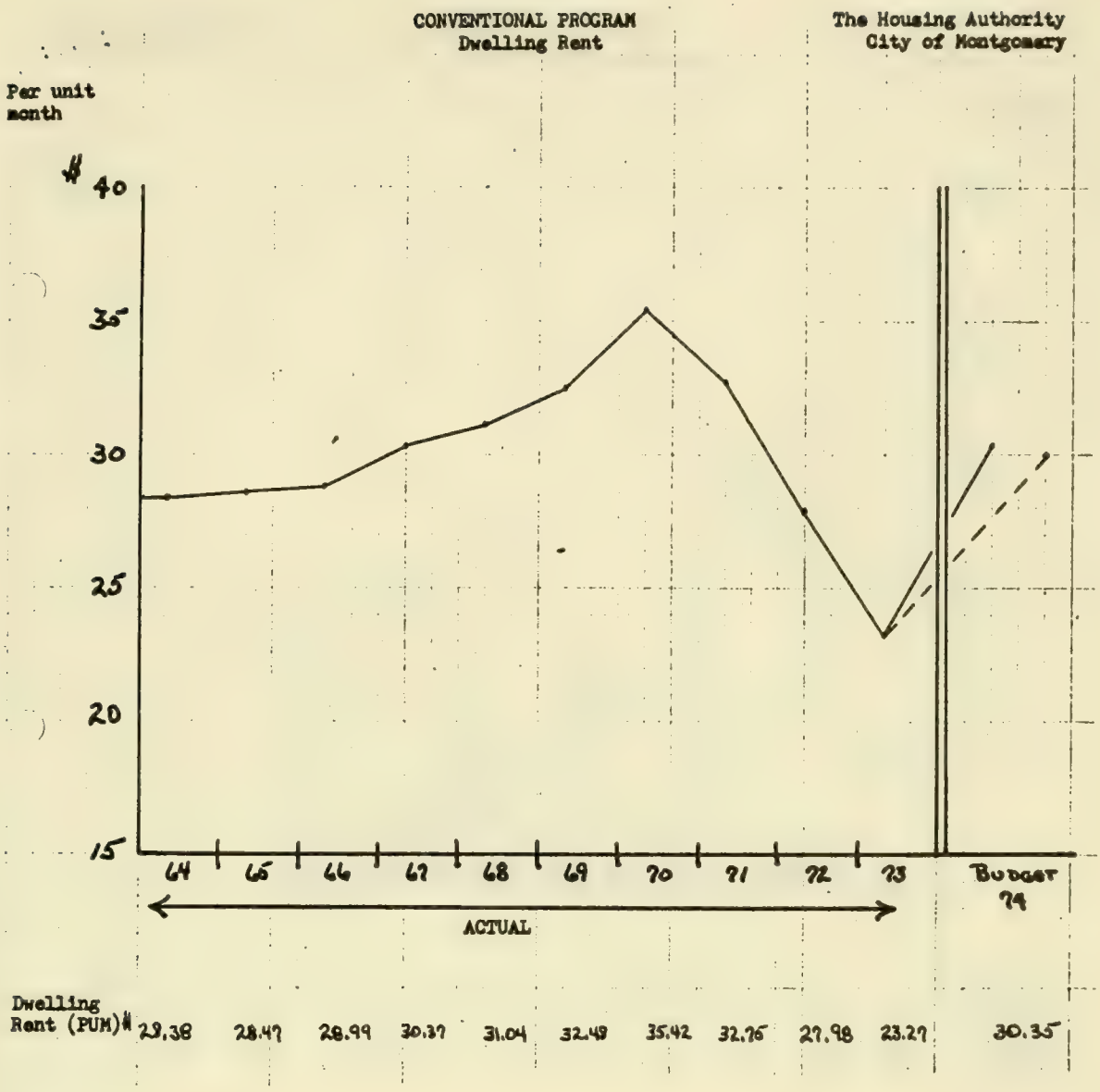
CONVENTIONAL HOUSING

1969	1970	1971	1972	1973	BUDGET 1974	THREE MONTH ACTUAL 1974
9	10	11	12	12	12	
1,624	2,122	2,222	2,622	2,622	2,622	
19,488	25,464	26,364	31,464	31,464	31,464	
			PER UNIT MONTH			
$32.48	$35.42	$32.75	$27.98	$23.27	$30.00	$30.35
$37.35	$41.54	$40.12	$33.64	$28.34	$33.57	
$31.37	$32.21	$39.24	$35.13	$35.20	$47.50	
$5.98	$9.33	$.87	($1.49)	($6.86)	($13.93)	
None	$9.33	$.72	($1.49)	($6.86)	($4.59)	
			NOT ELIGIBLE		$9.34	
$5.98	None	$.15	None	None	None	

THE HOUSING AUTHORITY OF THE CITY OF MONTGOMERY, ALABAMA

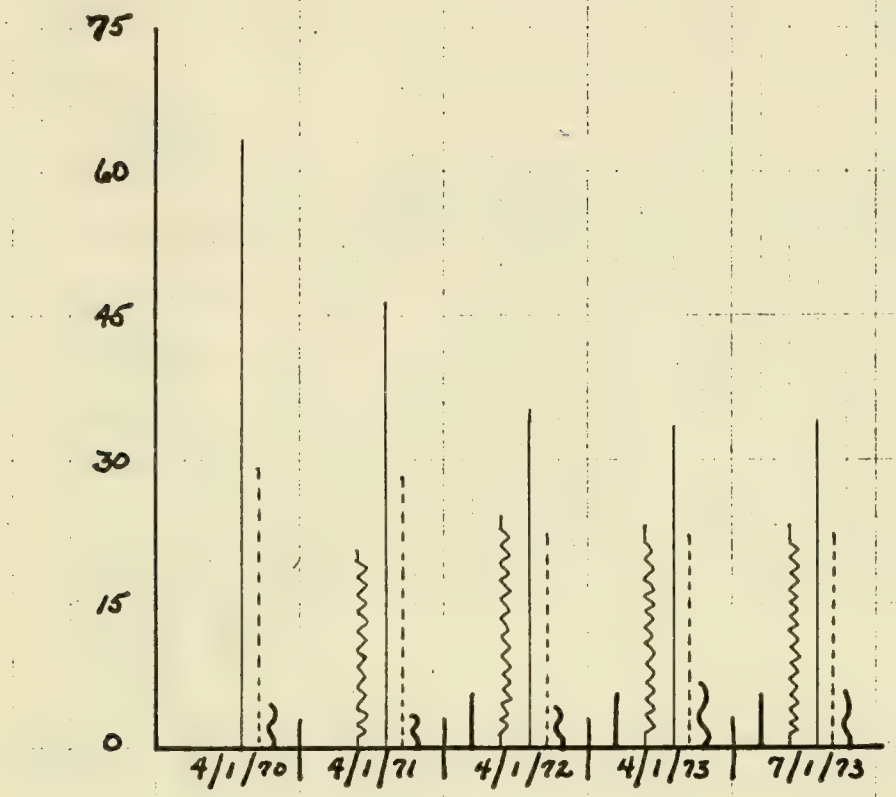
LEASED HOUSING PROGRAM

YEAR	1971	1972	1973	1974 (Budget)
UNITS	598	598	598	598
UNIT MONTHS	6,187 (86%)	7,176	7,176	7,176
DWELLING RENT	$27.06	$21.66	$12.37	$18.00
TOTAL INCOME	$31.05	$24.84	$15.17	$20.81
TOTAL EXPENSE	$119.49	$126.52	$127.50	$134.54
DEFICIT	$88.44	$101.68	$112.32	$113.54
PROVISION FOR RESERVE	$12.97		(8.94)	1.12
SUB-TOTAL	$101.41	$101.68	$103.38	$114.85
ANNUAL CONTRIBUTION	$101.41	$101.68	$102.89	$102.89
ADDITIONAL FEDERAL OPERATING SUBSIDY			$.49	$11.96


CONVENTIONAL PROGRAM
Dwelling Rent
The Housing Authority
City of Montgomery
Per unit
month
$
40
35
30
25
20
15
64
65
66
67
68
69
70
71
72
73
Budget
74
ACTUAL
Dwelling
Rent (PUM)$
29.38
28.47
28.99
30.37
31.04
32.48
35.42
32.76
27.98
23.27
30.35

CONVENTIONAL PROGRAM
Rent Range

The Housing Authority
City of Montgomery



Legend

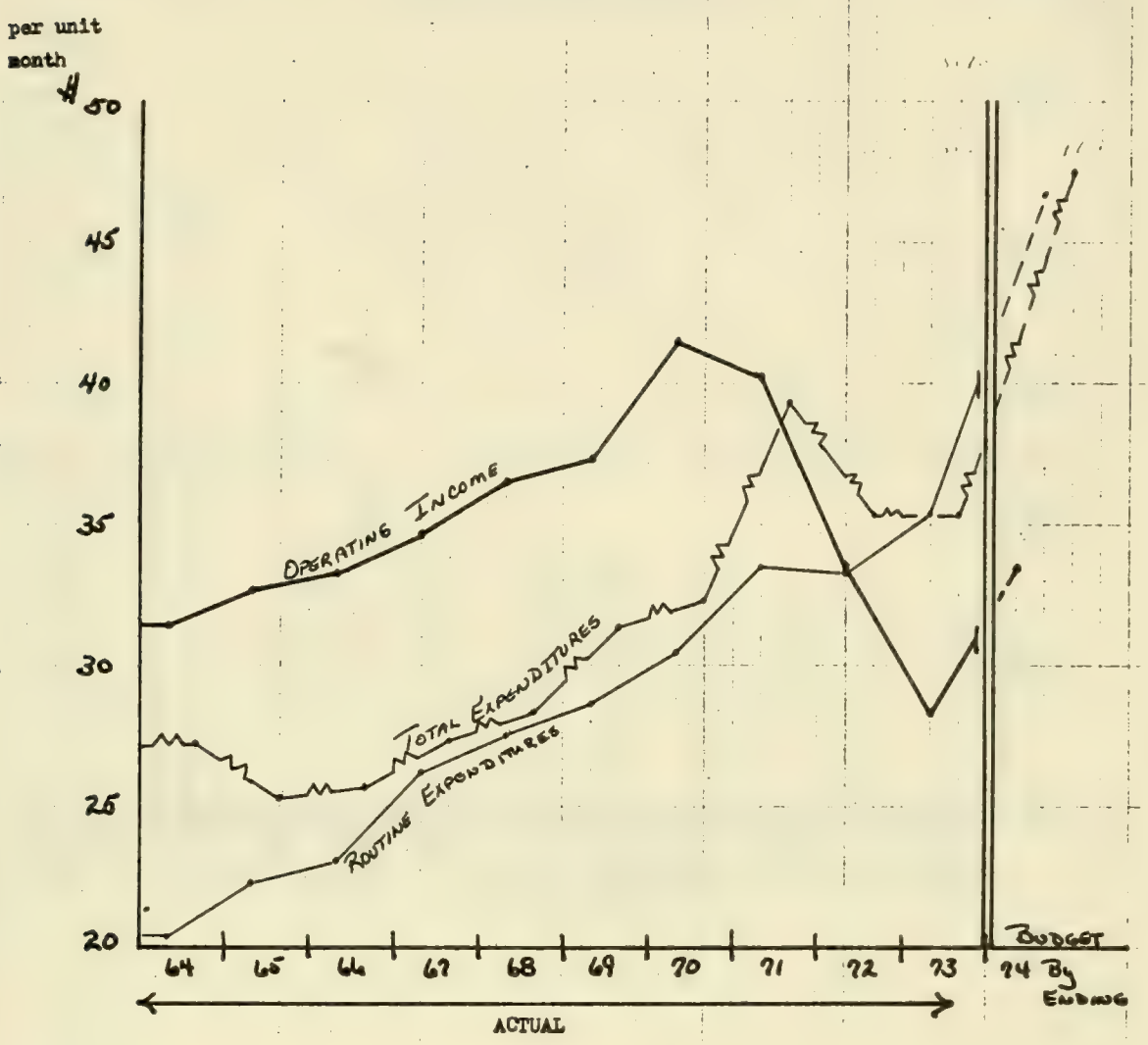
Rent Range Monthly rent	4/1/70	4/1/71	4/1/72	4/1/73	7/1/73
0 & below	—	—	10%	10%	10%
10-20	—	21%	25%	22%	22%
20-40	63%	46%	37%	35%	36%
40-60	29%	28%	22%	22%	22%
60-80	8%	5%	6%	11%	10%
Average Rent per dwelling unit			$ 33.25		$ 33.09

CONVENTIONAL PROGRAM

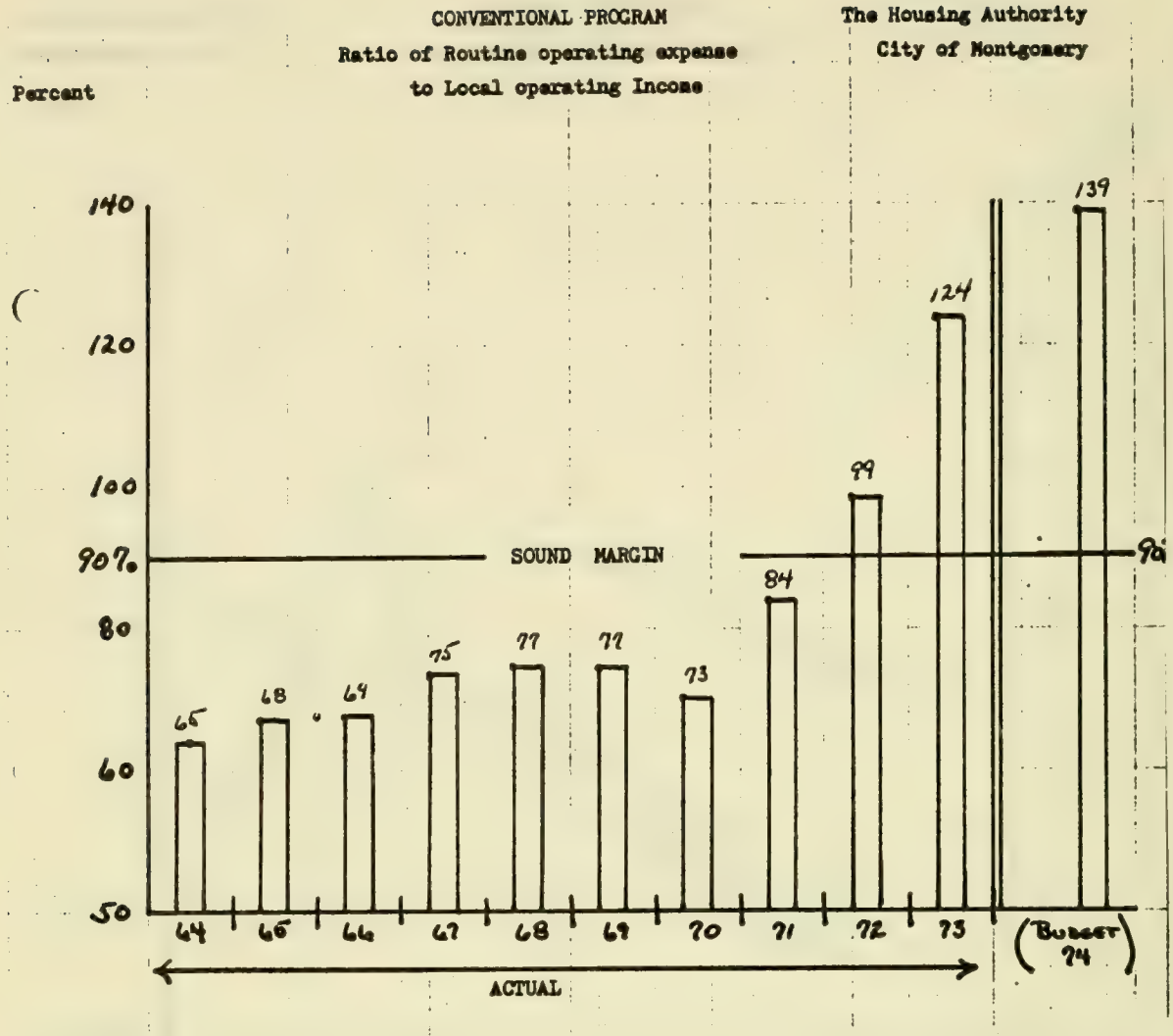
Operating Income vs Expenditures

The Housing Authority

City of Montgomery

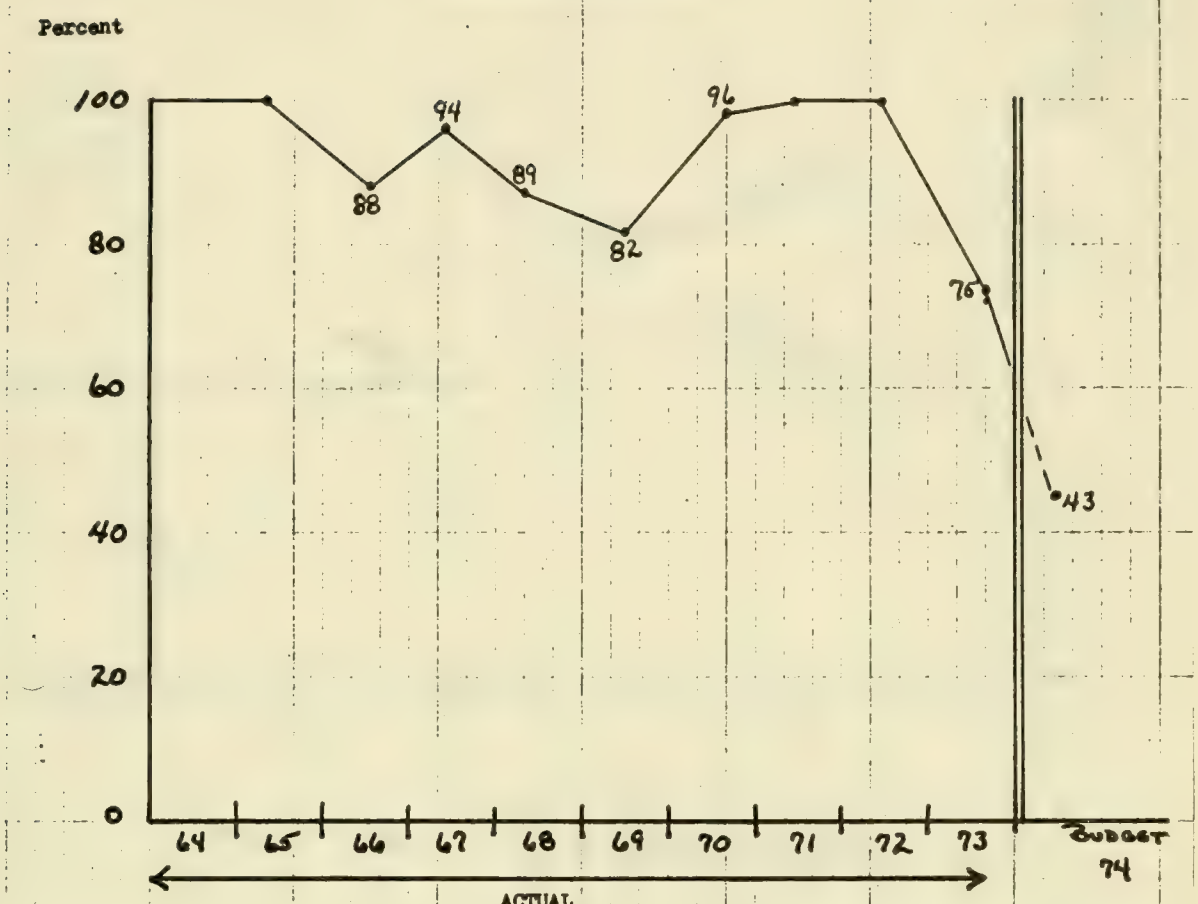


	64	65	66	67	68	69	70	71	72	73	74 By
Operating Income	$31.47	32.74	33.28	34.89	35.51	37.35	41.54	40.12	33.64	28.34	33.07
Routine Expenditures	$20.31	22.24	23.01	24.18	27.44	28.43	30.43	33.55	33.37	35.20	46.83
Total Expenditures	$27.12	25.16	25.76	27.13	28.20	31.37	32.21	39.24	35.13	35.20	47.50


CONVENTIONAL PROGRAM
Ratio of Routine operating expense
to Local operating Income
The Housing Authority
City of Montgomery
Percent
140
120
100
90%
80
60
50
SOUND MARGIN
65
68
69
75
77
77
73
84
99
124
139
64
65
66
67
68
69
70
71
72
73
(Budget 74)
ACTUAL

CONVENTIONAL PROGRAM
Actual Reserve as to
percentage permissible

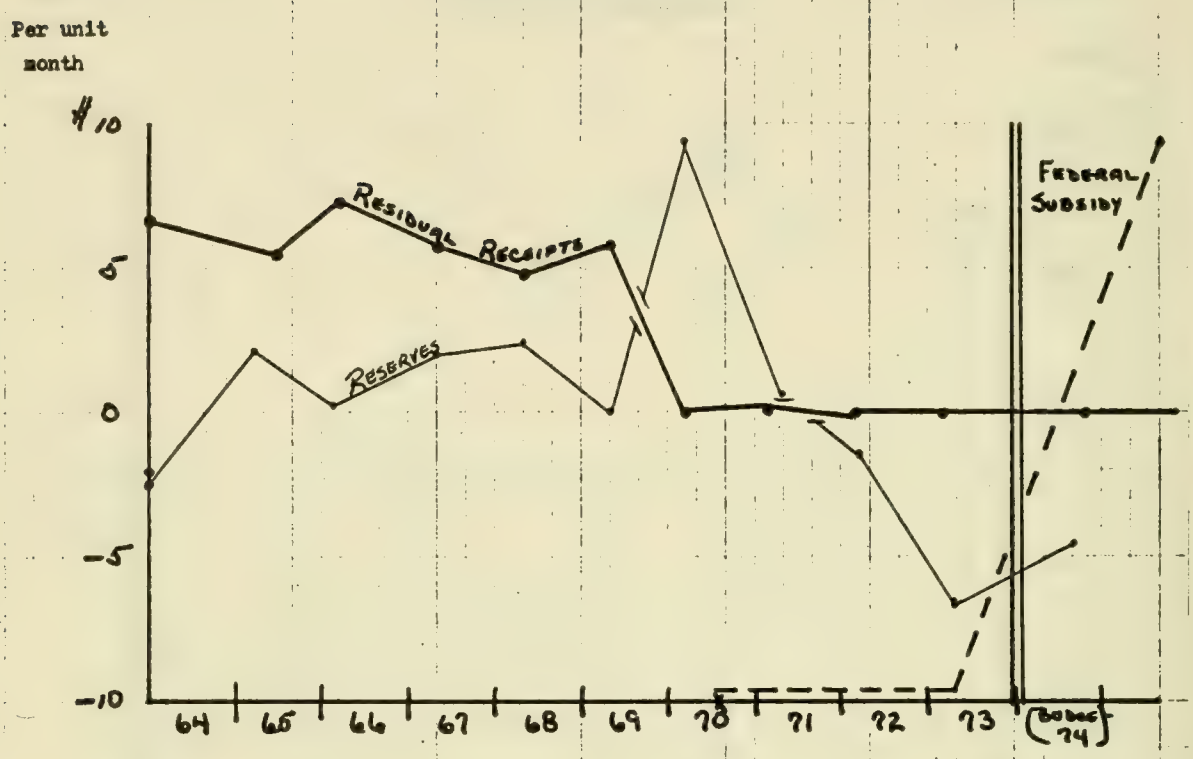
The Housing Authority
City of Montgomery



PER UNIT											
Actual Reserve	$	117	142	144	182	210	281	327	289	257	176	120
Reserve Possible	$	117	142	164	194	234	343	342	289	267	233	281

FINANCIAL ANALYSIS

City of Montgomery



Residual Reciepts (Returned to U.S. Govt. = almost $ 750,000)

64	65	66	67	68	69	70	71	72	73	(Budget 74)
4.76	5.53	7.29	5.76	4.91	5.98	- 0 -	.16	- 0 -	- 0 -	- 0 -

Reserve

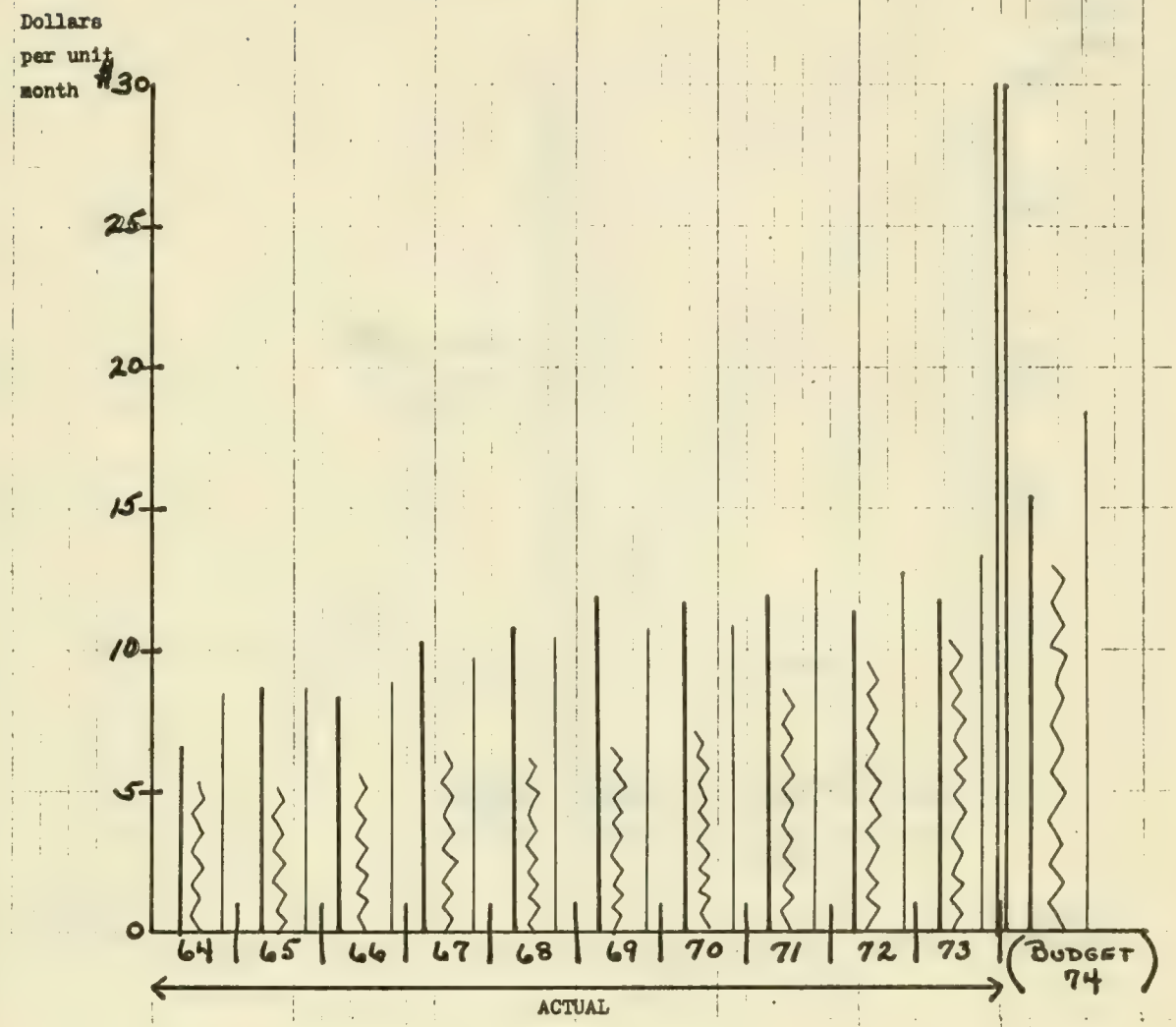
64	65	66	67	68	69	70	71	72	73	(Budget 74)
- 2.40	2.07	.23	2.00	2.40	- 0 -	9.33	.72	- 1.49	- 6.86	- 4.59

Additional Federal Operating Subsidy Required

64	65	66	67	68	69	70	71	72	73	(Budget 74)
								Not Eligible		$9.34

CONVENTIONAL PROGRAM
EXPENSES

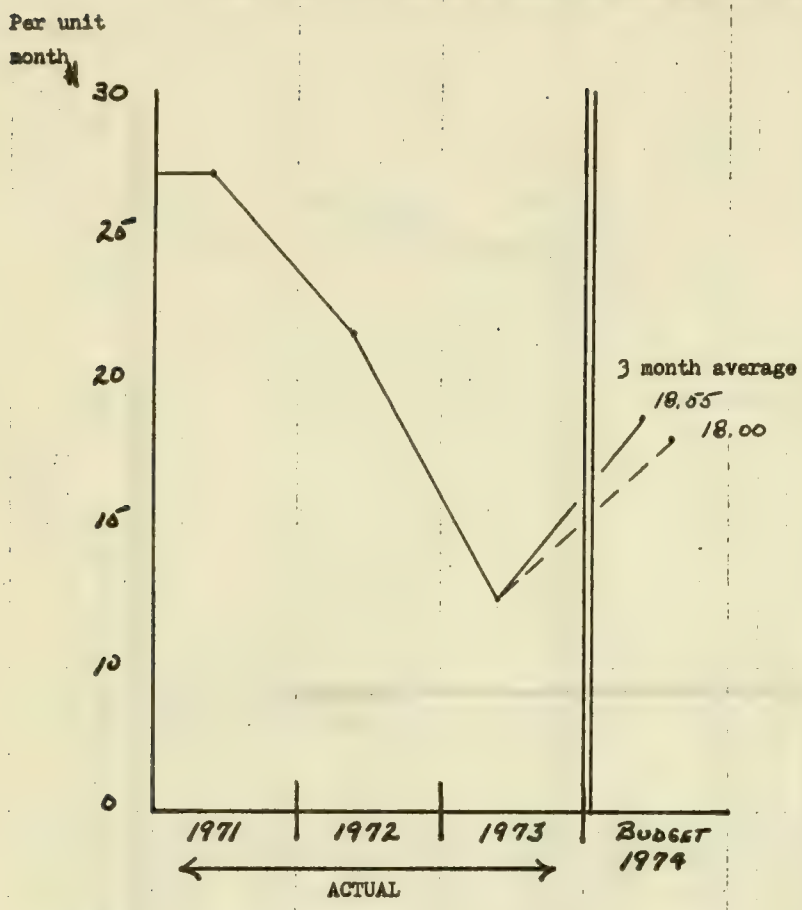
The Housing Authority
City of Montgomery



Legend	Dollars per unit month										
Maint ——	6.67	8.61	8.34	10.10	10.81	11.49	11.55	11.97	11.36	11.65	15.40
Ut ~~	5.23	5.11	5.13	6.42	6.27	6.47	9.06	8.69	9.26	10.23	13.00
Admin ——	8.46	8.54	8.94	9.66	10.38	10.67	11.82	12.91	12.75	13.32	18.43
Non-Routine	4.77	2.90	2.75	.95	.74	2.74	1.78	5.69	1.76	—	.67
Total operating expense	27.12	25.14	25.76	27.13	28.20	31.37	32.21	39.24	35.13	35.20	47.50

LEASED HOUSING PROGRAM
Dwelling Rent

The Housing Authority
City of Montgomery

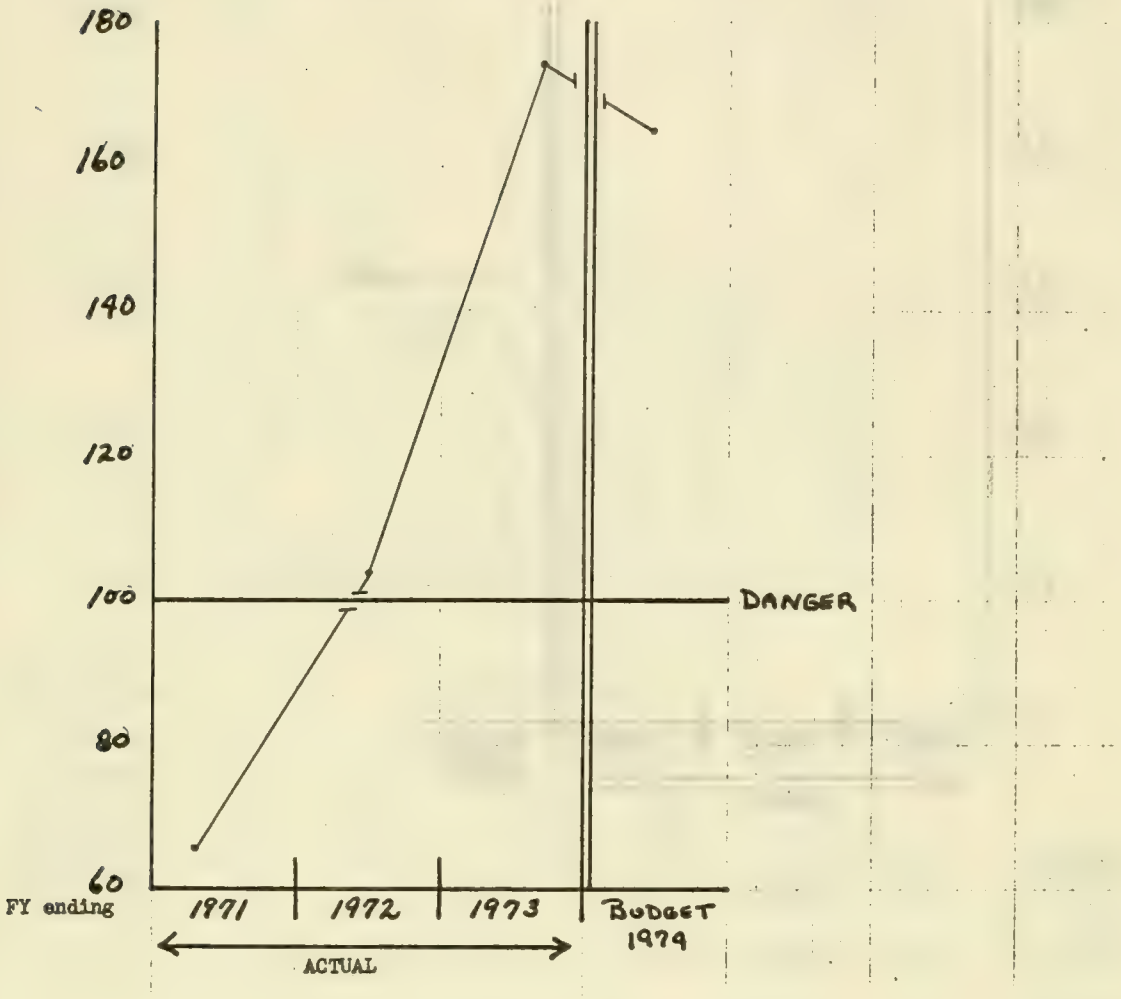


	1971	1972	1973
Dwelling Rent (PUM)	27.06	21.66	12.37

LEASED HOUSING PROGRAM

The Housing Authority
City of Montgomery

Ratio of Routine Operating Expense to Local Operating Income

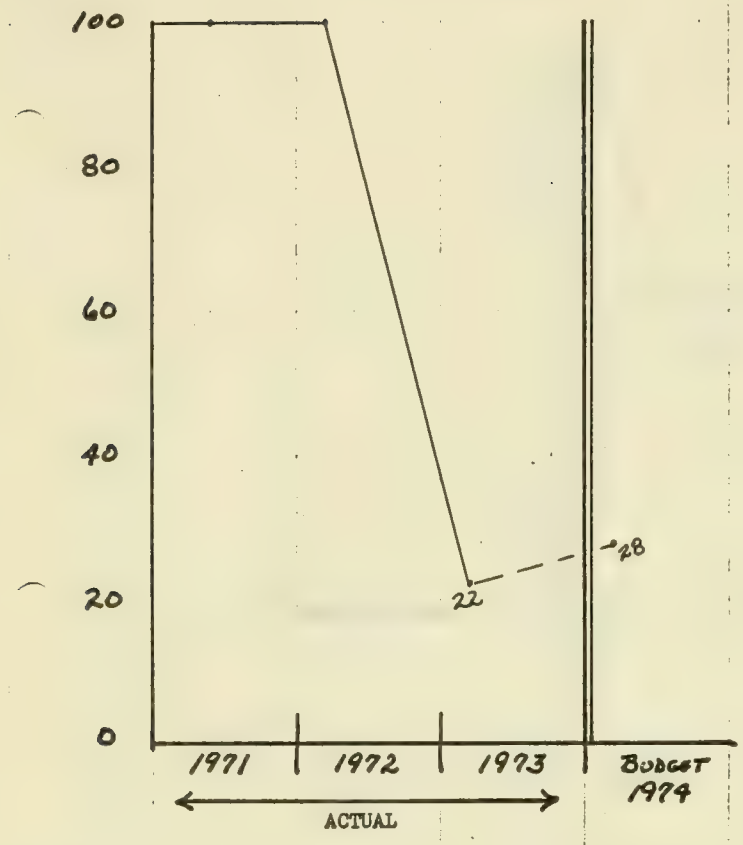


LEASED HOUSING PROGRAM

Actual Reserve as to percentage permissible

The Housing Authority

City of Montgomery



Legend

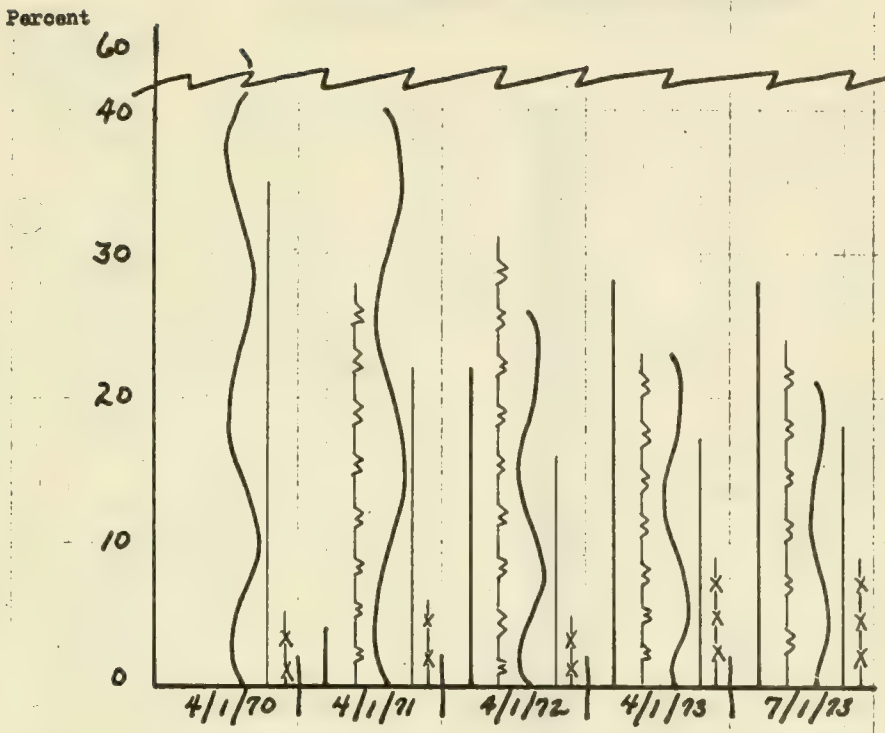
	Per Unit			
Actual Reserve #	152.00	152.00	46.00	58.00
Reserve Permissible	152.00	152.00	199.00	205.00

LEASED HOUSING PROGRAM

Rent Range

The Housing Authority

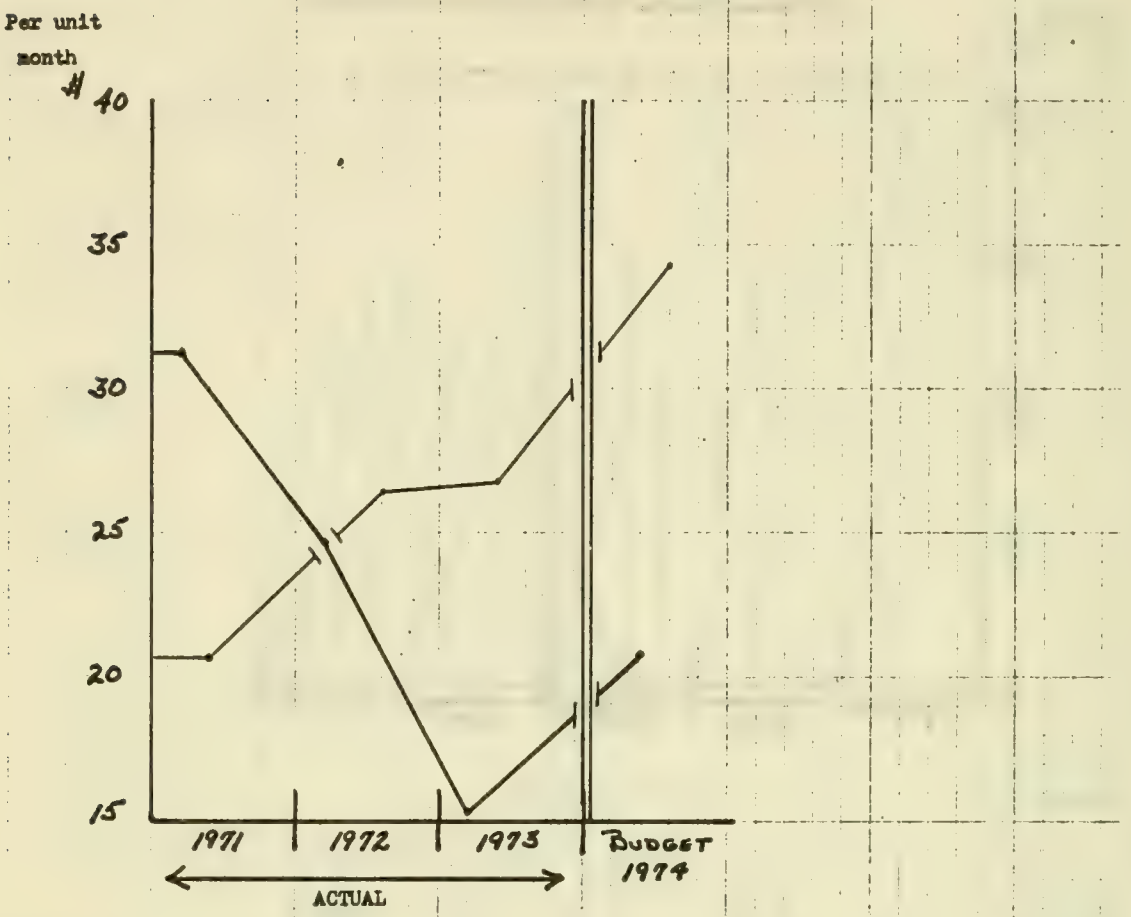
City of Montgomery



Rent Range Monthly Rent		Actual Percentage			
0 & below ———		4%	22%	28%	28%
10-20 ~~~		28%	31%	23%	24%
20-40 ~~~	60%	40%	24%	23%	21%
40-60 ——	35%	22%	16%	17%	18%
60-80 —x—x	5%	6%	5%	9%	9%
Average rent per dwelling unit				$22.20	$20.61

LEASED HOUSING PROGRAM
Operating Income vs Routine Expenditures

The Housing Authority
City of Montgomery

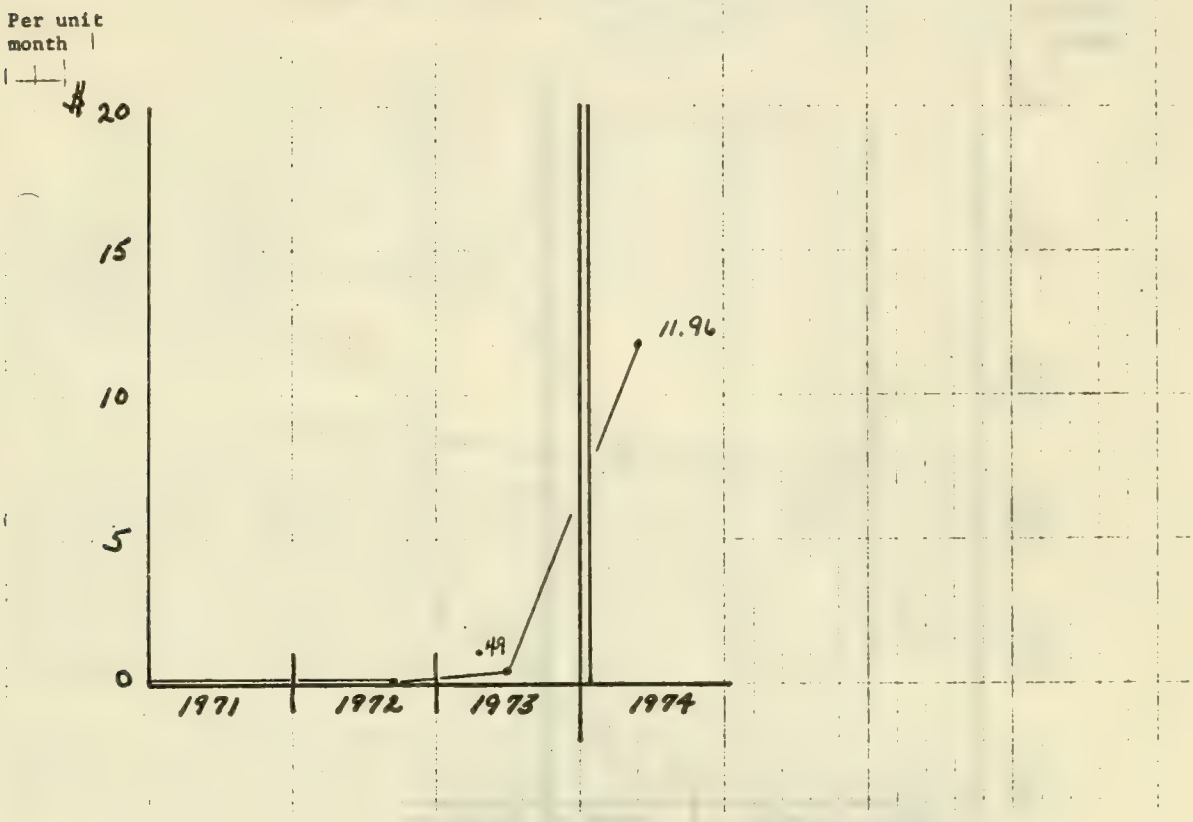


	1971	1972	1973	Budget 1974
Operating Income —	31.05	24.84	15.17	20.81
Routine — Expenditures (does not include rent to owners)	20.20	26.17	26.76	34.11

LEASED HOUSING PROGRAM

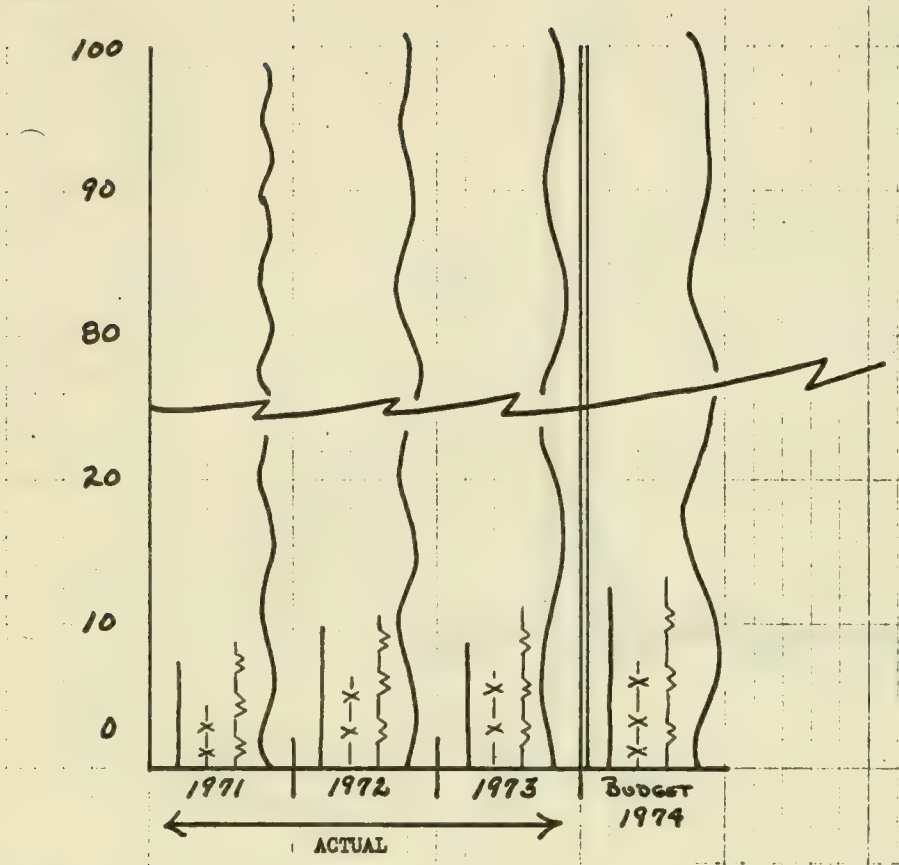
The Housing Authority
City of Montgomery

Additional Federal Operating Subsidy Required



LEASED HOUSING PROGRAM
Expenses

The Housing Authority
City of Montgomery



Legend	1971	1972	1973	Budget 1974
Maint. ——	7.48	9.96	8.72	12.54
Util. —X—X—	4.37	5.49	6.95	7.70
Admin. —~—	8.35	10.72	11.09	13.87
Non-Routine	.30	—	.31	—
Rent to Owners ~~	98.99	100.36	100.43	100.43
Total operating cost	119.49	126.62	127.50	134.54

Mr. E. D. Nixon
Community Service Advisor
Young Forte Village
3594 Young Drive
Montgomery, Alabama 36108

June 23, 1973

Mr. J. C. Miller, Jr.
Executive Director
Montgomery Housing Authority
1020 Bell Street
Montgomery, Alabama

Dear Mr. Miller:

This is a follow-up of our conversation in agreement with Mr. Walter G. Hooke, National Personnel Director, United - Parcel Service, 643 West 43rd Street, New York , New York and Mr. Will Mann, Alabama District Personnel Director, United Parcel Service in Birmingham, Alabama, with reference to two trainees that will be placed in Young Forte Village beginning July 9, 1973 through August 31, 1973.

It is our understanding that this is customary with the United Parcel Service to place a number of their employees across the country in places like Young Forte Village so that their men can get a closer look at the community and broaden their experience in dealing with the lower-payed element of people, this I think is very good.

Mr. Will Mann, Mr. Arthur Hill and I talked to Mr. Wiley Thomas, Assistant Manager, and he to was informed about the coming of our first man.

I bring this to your attention because we are expecting one of the men here on July 9, 1973.

Please advise me if there is anything in addition to our agreement that you wish me to raise in meeting with Mr. Will Mann or whoever accompanies the man here.

Yours truly,

E. D. Nixon
Community Service Advisor

EDN/ms

SOME OF THE ACTIVITIES AND SERVICES THAT ARE AVAILABLE TO RESIDENTS OF THE MONTGOMERY HOUSING AUTHORITY

1. DRUG ABUSE

A drug use and abuse program has recently been initiated in several of the projects. Members of the Narcotics Division of the Montgomery Police Department, along with the State Department of Dangerous Drugs and some local doctors, have made themselves available for informal sessions with both the youth and adults. These discussions are held in the community centers, on the lawns or in the apartments. The interest and results are gratifying.

2. COMMUNITY LIVING

A retired professional teacher and very learned person, Mrs. Betty Fitz-Gerald, is donating her talents and time in conducting a course that covers many aspects of daily living. Subjects such as personal hygiene, housekeeping, meal planning, how to get along with each other, care of equipment and apartments, getting the proper medical attention are a few that are discussed.

3. HEART ASSOCIATION

This organization makes regularly planned trips to the communities with a mobile unit. A check-up of one's heart condition can be had for the asking.

4. TB AND BLOOD DISEASES

This is another mobile unit that comes to our areas on a prearranged basis. Blood tests are made with the residents immediately knowing the results.

5. ALCOHOLISM

Films are shown in our community centers on the effect of overuse of alcohol. These films are shown on youth night as well as to adults.

6. ADULT EDUCATION

Professional people has responded to the request to visit our community centers and conduct classes on reading, writing, communicating with others, and many other types of education.

7. PROBATION OFFICERS

Family Court of Montgomery was recently funded for the second year for probation officers to be assigned to four of our communities. These men are carefully chosen, and are interviewed by both the court administrator and the Executive Director of the Housing Authority. Office space is provided, including desk and phone. Many hours are spent counseling with youthful offenders and parents. These men do not carry guns. They help with such matters of organizing baseball and football teams, wrestling teams and compete with other projects. Field trips are planned and chaperoned by the probation officers. This has proven to be a very effective program.

8. SCOUT PROGRAM

Most of all Authority communities have active, fully uniformed Girl and Boy Scout programs. Parades are often held in the communities by the Scouts.

9. SUMMER OLYMPICS

Plans are being finalized for the first "E. D. Nixon Summer Olympics" ever to be held in our city. Organized track, hurdling, relay and high jumping events are planned. This competitive sport event is being named in honor of one of Montgomery's finest and well known black citizens. Mr. E. D. Nixon came out of retirement after spending 44 years with the Pullman Company to serve as community service advisor of Young Forte Village. Approval has been granted for the use of local school gyms and track facilities. Trophies will be awarded to the winning teams.

10. FLAG CEREMONY

After a recent flag presentation and pole setting ceremony at Richardson Terrace, other Authority communities have begun fund raising projects for the purpose of purchasing their own poles after having been promised a flag by the local V.F.W. Club.

11. HOME NURSING COURSE - AMERICAN RED CROSS

Sixteen persons from our housing communities, including our three social workers, participated in a pilot program of outreach by the American Red Cross to teach Home Nursing to our low-income families. The courses were held at St. Margaret's Hospital, and out of the sixteen, five persons were certified as Home Nursing Instructors. As a follow-up of this pilot program, Home Nursing Courses are being taught in our housing communities by our staff and residents who were certified as instructors. Plans are now being made for classes in Mother-Baby Care and Mother's Aide to be taught

in our housing communities. This program is being coordinated by Mrs. Belle Bigger, Director of Nursing Programs for the Montgomery Area Chapter of the American Red Cross, and Mrs. Pat Morgan, Authority Administrative Assistant in charge of Special Programs and Projects.

12. VACATION BIBLE SCHOOL

For the first time, Vacation Bible School was held for the children in some of the projects. Adult Bible study is conducted regularly for those who are interested.

13. WORK RELEASE PROGRAM

The Housing Authority is working very closely with the State Pardon and Parole Board on a work release program wherein juveniles, prior to being paroled, would be released to us during the day, and would work with our maintenance crews thereby being exposed to many trades, such as plumbing, carpentry, electrical work and others.

14. ALABAMA STATE COLLEGE

This school arranges for their classes on social studies to receive their field work with the Authority. Students are assigned according to size of project, and are under supervision of the project manager. Studies have been made, and some very good recommendations have been suggested by these students.

15. FAMILY GUIDANCE CENTER

Feeling that they were not reaching persons from the low-income communities, the Family Guidance Center has made available to the Housing Authority the services of a professionally trained guidance counsellor one day each week. Office space is provided at Young Forte Village, and assistance is given the residents with problems which threaten the family, its function, etc. to enable development of a healthy personality and social adjustment. Where necessary, referrals are made to other agencies. The Family Guidance Center has also offered social services, training and other assistance in the Young Forte Child Development and Day Care Program.

16. Young Forte Village Child Development & Day Care Center scheduled to open record week in August, 1973. Will serve 65 children. Assistance through State of Ala. Dept. of Pensions & Security Title IV-A funds.

Peggy Goodwyn
CHIEF PROBATION OFFICER

WILLIAM F. THETFORD
JUDGE

BENJAMIN P. FRANKLIN
DETENTION DIRECTOR

FAMILY COURT OF MONTGOMERY COUNTY YOUTH FACILITY
TELEPHONE 262-3881
1111 AIR BASE BOULEVARD
MONTGOMERY, ALABAMA 36108

July 23, 1973

Mr. J. C. Miller, Executive Director
Montgomery Housing Authority
1020 Bell Street
Montgomery, Alabama

Dear Mr. Miller:

I should like to take this opportunity to thank you and the Montgomery Housing Authority for your contribution to the success of our community-based probation services program.

As you know, our existing LEPA grant has been approved for a second year and plans are being made to expand the program to include community-based probation services in Victor Tulane Court. We are convinced that much of our success is due to your cooperation and assistance. By your furnishing office space so readily, our program was able to go into effect very soon after grant approval thus saving us much time and trouble. Your continued support and counsel has been invaluable to us in community project development.

We feel that Montgomery is fortunate to have the benefit of your enthusiasm toward community-based treatment and rehabilitation, making the Montgomery Housing Authority an integral part of all of our efforts toward community betterment.

Sincerely,

Peggy Goodwyn

(Miss) Peggy Goodwyn
Chief Probation Officer

PG:bjt

MONTGOMERY PUBLIC SCHOOLS
CITY AND COUNTY
BOX 1991
MONTGOMERY, ALABAMA 36103

SUPERINTENDENT'S OFFICE

July 20, 1973

Mr. J. C. Miller, Jr.
Montgomery Housing Authority
1020 Bell Street
Montgomery, Alabama

Dear Mr. Miller:

You are to be commended for your efforts toward better utilization of the various community resources in improving the general environment of the many housing projects under your direction. As Director of Vocational Education for the Montgomery Public School System, I am looking forward to working more closely with you in your efforts to beautify the grounds in these many projects. We have a unit in horticulture where we train young men from age 14 up in the many jobs found in the horticultural cluster. Many of these students come to us from your housing projects. It is believed that a well structured training program will not only enhance their appreciation of their surroundings in your projects but will lead toward saleable skills at the time they leave our public schools.

I shall be looking forward to working with you very closely in the future.

Very truly yours,

J. E. Wyrosdick

J. E. WYROSDICK

State of Alabama
Department of Education
DIVISION OF
VOCATIONAL-TECHNICAL AND HIGHER EDUCATION
State Office Building
Montgomery, Alabama 36104

LeRoy Brown
State Superintendent

T. L. Faulkner
State Director

July 23, 1973

Mr. J. C. Miller, Jr.
Executive Director
The Housing Authority of the
City of Montgomery, Alabama
1020 Bell Street
Montgomery, Alabama 36104

Dear Mr. Miller:

As Director of the Vocational-Technical and Higher Education Division, Alabama Department of Education, I am well aware, as are many of our citizens, that Child Development and Day Care Programs will prove invaluable in preparing those fortunate enough to avail themselves of such opportunities for a better way of life. It will also strengthen our public school program by allowing actual teaching in kindergarten and first grade which begins at the age of three.

The great potential of this program will be motivated in our higher education institutions in training teachers and developing empathy for all types of students. It is our opinion that the potential for learning must begin as early as possible in a child's life.

This program was discussed with Mrs. Pat Morgan, Administrative Assistant for the Housing Authority, in our State Department office in a most rewarding visit. We, of course, will be happy to cooperate in any way possible with this innovative program of child development and day care for which we feel there is a widespread need in our city, state, and country.

Please feel free to use this letter as my endorsement of your program and as an indication of our willingness to cooperate in any way possible.

Sincerely yours,

T. L. Faulkner, State Director
Vocational-Technical and Higher Education

TLF:no

THE HOUSING AUTHORITY OF THE CITY OF MONTGOMERY, ALABAMA
1020 BELL STREET
MONTGOMERY, ALABAMA 36104

EXECUTIVE DIRECTOR
J. C. Miller, Jr.

MEMBERS OF AUTHORITY
Lewis G. Odom, Jr., CHAIRMAN
C. T. Donaldson, VICE-CHMN.
Dr. Moses W. Jones
W. F. Hamner
Mariah F. McWhorter

August 9, 1973

SEN. JOHN SPARKMAN
RECEIVED
AUG 13 1973
WASHINGTON, D. C. 20510

Honorable John Sparkman
Chairman, Committee on Banking,
Housing and Urban Affairs
Room 5300, Dirksen Building
Washington, D. C. 20510

Dear Senator Sparkman:

We want to thank you again for the opportunity to appear before the Subcommittee on Housing to present information on the Housing Authority of the City of Montgomery and to give our views of the effects of S. 2182 on this Authority's rental income.

During my testimony before the Subcommittee on July 27, 1973, I was asked to answer certain questions in writing for the record.

In reference to the question, "What would be generated for the Montgomery Housing Authority if we were to adopt the provision in S. 2182 requiring a minimum rental for any dwelling unit equal to 40% of the operating costs attributable to the unit?", a more careful analysis was made upon our return to Montgomery and we would like to supplement our remarks on Page 638, Lines 10-18, to include the additional income which would be generated from our leased housing program. The remarks contained on Page 638, Lines 10-18 pertain only to our conventional housing program. Attached is a breakdown of the effect the adoption of the above provision would have on both the conventional and leased housing programs. As you can see, it would mean an additional annual income of $87,942 for our conventional projects and an additional $49,398 for our leased projects for a total of $137,340 additional annual income. However, our projected deficit for fiscal year ending March 31, 1974, is $515,860, which means that adoption of this provision alone would not solve our problem. However, as stated on page 638, Lines 19-25, everyone would be paying something which we wholeheartedly support.

In reference to the next question, "What additional rental income would be generated for the Montgomery Housing Authority if we were to adopt the income definitions contained in S. 2182, which in effect abolishes the 5% deduction from gross income for families and the 10% deduction from gross income for elderly families?", we are attaching a breakdown of the effect this provision would have on our annual income. Again, as you can see, this will result in an

additional annual income of $71,184, which together with the income derived from the 40% of operating costs will amount to an annual increase to this Authority of $208,524.

We would like to point out that for the fiscal year ending March 31, 1974, our total operating receipts for the conventional program are projected to be $1,056,250 while our total operating expenditures for the same period are projected to be $1,494,320, leaving a deficit of $438,070. For the leased projects the income is projected to be $887,710 including HUD contributions and the expenses are projected to be $965,500 leaving a deficit of $77,790, for a total deficit for both programs of $515,860.

As you can see, even with the additional income generated from the two provisions of S. 2182 mentioned above, we would still be faced with a total deficit for our leased and conventional programs of $307,336 for Fiscal Year ending March 31, 1974, necessitating an operating subsidy in this amount to carry out what we feel is a minimum program of housing our less fortunate citizens.

The recommendation of our Tenant Selection Department is that minimum rents be established and that it would be good to take a look at the $300 exclusion for secondary wage earners and minors with a view of eliminating or reducing the amount of this exclusion. If the $300 exclusion were reduced to $200, this would result in an additional income of $4,844 per month or an annual increase of $58,128 for the 1618 families who are presently on "Brooke Rent" If you would like any further information on this, we would be glad to furnish it.

We have reviewed the copy of my remarks forwarded to us by Mr. Edward C. Dicks and have made corrections on Page 635, Line 9, Page 637, Line 24, and Page 638, Line 3. We are returning a copy of the corrected remarks with this letter.

Again, let me thank you for allowing us to tell the story of the Montgomery Housing Authority and to make comments on S. 2182. If there is any further information needed on the above narrative or the attachments, please do not hesitate to contact us.

Sincerely,

J. C. MILLER, JR.
Executive Director

JCMJr/pcm

Enclosures

THE HOUSING AUTHORITY OF THE CITY OF MONTGOMERY, ALABAMA

	Conventional Housing	Leased Housing
Units	2,622	598
Vacancies	103	91
Occupied	2,519	507

Tenants in Occupancy paying monthly rent of $14.00 (40% operating cost fye 3/73) or less	558		229
Rent they pay	$483.50	Monthly	$(910.50)
(Fiscal Year Ending March 1973 40% Operating Cost Conventional 14.00) Rent they would pay	7,812.00 (2.98 Per Unit Month)	Monthly	3,206 (5.36 Per Unit Month)
Additional Income	7,328.50	Monthly	4,116.50
	87,942.00	Annual	49,398.00

TOTAL $137,340.

THE HOUSING AUTHORITY OF THE CITY OF
MONTGOMERY, ALABAMA

The following information was derived from approximately 407 Elderly Families and 1,211 "Other" Families on Brooke rents:

Of the approximately 407 Elderly Families, one-third (136) of these would increase an average of $3.00 per month. Two-thirds (271) of these families would increase an average of $4.00 per month.

136 @ $3.00 = $408.00
271 @ $4.00 = $1,084.00

Of the approximately 1,211 "Other Families", one-third (404) of these would increase an average of $3.00 per month. Two-thirds (807) of these families would increase an average of $4.00 per month.

404 @ $3.00 = $1212
807 @ $4.00 = 3228

TOTALS

$ 408.00	
1,084.00	
1,212.00	
3,228.00	
$5,932.00	Monthly
X 12	
$71,184.00	Annually

Senator STEVENSON. Our next witness is Mr. Archibald Rogers, the first vice president of the American Institute of Architects. Mr. Rogers, you are welcome to proceed as you see fit. Your statement is fairly lengthy. If you would be willing to summarize, I would be glad to enter the full statement in the record.

Mr. ROGERS. We have a summary statement which I would like to read. It is fairly brief. We also have some slides to show, which will also be quite short.

Senator STEVENSON. Please proceed.

STATEMENT OF ARCHIBALD C. ROGERS, FAIA, FIRST VICE PRESIDENT, THE AMERICAN INSTITUTE OF ARCHITECTS; ACCOMPANIED BY, MICHAEL B. BARKER, ADMINISTRATOR, DEPARTMENT OF ENVIRONMENT AND DESIGN; AND DAVID E. OSTERHOUT, DIRECTOR OF CONGRESSIONAL LIAISON

Mr. ROGERS. Senator Stevens, I am Archibald C. Rogers, first vice president of the American Institute of Architects, and chairman of the institute's national policy task force. I am also a practicing architect in Baltimore, Md. Accompanying me are Michael B. Barker, administrator of the institute's department of environment and design; and David E. Osterhout, the institute's director of congressional liaison.

We have divided our formal statement into three sections. The first section covers five major points that we would like to make regarding the pending legislation. The second section outlines specific provisions to back up the recommendations contained in section 1. The third section is a brief slide presentation on community development at the neighborhood scale in what we call "growth units."

Senator Stevenson, I would like to submit my full statement and several supporting documents for the hearing record and then briefly outline its major points in my oral testimony and slide presentation.

Senator STEVENSON. Without objection, they will be entered in the record.

[Statement and documents can be found at p. 1402.]

Mr. ROGERS. Before discussing the issue of community development, however, I would also like to submit a separate statement for the record regarding the establishment of a National Institute of Building Sciences. This statement is submitted on behalf of the AIA, the American Society of Civil Engineers, the American Consulting Engineers Council, and the National Society of Professional Engineers, and we request that it be printed at the conclusion of my testimony on the pending community development legislation.

Senator STEVENSON. The statement will be entered in the record.

[The information follows:]

ESTABLISHMENT OF A

NATIONAL INSTITUTE OF BUILDING SCIENCES

A STATEMENT BY

THE AMERICAN INSTITUTE OF ARCHITECTS
AMERICAN SOCIETY OF CIVIL ENGINEERS
CONSULTING ENGINEERS COUNCIL OF THE U.S.
NATIONAL SOCIETY OF PROFESSIONAL ENGINEERS

The design professions recognize the need for the establishment of a single national coordinating agency in the building sciences field and support the basic concept embodied in S. 2103 to fulfill this need.

When Congressman William Moorhead and Senator Jacob Javits initially introduced legislation in 1969 to establish a National Institute of Building Sciences, their proposal was generally well received by the design professions, as witnessed by the following resolution adopted by The American Institute of Architects at its 1969 National Convention.

> "Building Codes and Standards Resolution Number Five. Building codes and standards are solely for the protection of the public interest. Therefore, they should be based solely upon criteria proven by test to be fundamental to that interest.
>
> "Further, inasmuch as the public interest is universal, a high degree of consistency should be exhibited amongst codes adopted in the public interest.
>
> "Under prevailing conditions, however, public agencies formulate and administer codes too frequently based upon capricious, untested criteria. The result: a proliferation of divergent requirements often denying innovation by the building industry and sacrificing its performance to administrative dictate or convenience.

"As building technology advances and volume demands increase, it is increasingly difficult for the industry to interpret, objectively, the public interest as phrased in such codes.

"Therefore, be it

"RESOLVED, That the AIA offer its support to bills introduced in Congress by Senator Javits of New York and Representative Moorhead of Pennsylvania, both of which call for Federal sponsorship of a National Institute of Building Sciences authorized to develop rationally conceived criteria upon which to test and evaluate the performance of building materials and techniques, and which further authorize the Institute to promote and encourage consistency in the formulation and administration of building codes and standards based upon such criteria."

Design professionals participating in the planning and the building process are prime users of building standards and codes. In their work, they are constantly concerned in the public interest, with public safety, health, and welfare. The state laws regulating the practice of the design professions are based on this concern. The design professional recognizes that the building regulatory process is an essential ingredient in the protection of the public interest, and many design professionals contribute their talents to the formulation of the criteria upon which building regulations are based. A Codes and Regulations Center recently established by The American Institute of Architects has as a primary objective the formulation of criteria on a rational basis and the development of techniques for the evaluation of technology responsive to the criteria. It is hoped that the center will soon be expanded to include the participation of the other design professions.

The design professions recognize the imperfect nature of the traditional scattered process of developing building standards, criteria, and regulations. The proposed National Institute of Building Sciences offers an opportunity for the modernization and unification of this process. Interpreting the proposed legislation, we visualize the Institute as:

1. A single national coordinating agency to focus on and bring a unified direction to the diverse public and private efforts to provide for the promulgation of national standards and performance criteria which can be referenced in local building codes and which can provide guidance for the segmented building industry in the non-regulatory area.
2. An authoritative non-governmental source to provide for the evaluation of and subsequent dissemination of information on new and emerging building technology and innovations in the building construction process. An example of such new technology is the so-called "building system", which is frequently a complex assembly of several building products in combination, requiring the development of new evaluative techniques.
3. A center to provide for the development of rational non-product standards relating to the safety of occupants of buildings. An example is the determination of emergency egress requirements for buildings of various occupancy types and construction types based on other than arbitrary or intuitive considerations. This again would require the development of new evaluative techniques.

As the design professions can bring considerable expertise to the functioning of the Institute without bias toward specific building products, we are especially pleased that architects and professional engineers will be included in the membership of the Institute's Board of Directors as proposed by S. 2103. We also believe that time should be allowed for the Institute to fully establish itself and to function effectively before considering the mandatory use of its findings in Federal construction programs or projects of State and local governments involving Federal assistance. We therefore support the present language in S. 2103 which encourages the use of the Institute's findings by Federal agencies and in Federally-assisted programs.

Mr. ROGERS. The design professions support the provisions of S. 2103, Senator Jacob Javits' bill to create such a National Institute of Building Sciencies, and urge the committee to approve the bill on an individual basis or as a separate title to the pending community development legislation, whichever route will expedite the proposal.

Today, the American Institute of Architects, the national society for the architectural profession representing 24,000 licensed architects, wishes to express its views on the community development legislation currently pending before this committee.

Over the past 10 years, the American Institute of Architects has directed a great deal of thought to the process of community development. The report of our national policy task force, titled "America at the Growing Edge: A Strategy for Building a Better America," sets forth a policy and strategy that have been adopted by the institute's board of directors and by the national AIA convention in May 1972.

In brief, the new policies recommended in this report would change the ground rules that now shape, and distort the shape, of American communities; create a new and useful scale for planning and building in urban areas; and commit the Nation to a major land acquisition policy to guide development in and around key urban centers.

This report is now being refined with the assistance and cooperation of over 30 professional and other organizations. This working group of individuals and organizations, listed in an appendix to this statement, has agreed on the need for a national growth policy and is now working on the specific details of such a policy, and this appendix 2, I would like to be entered in the record.

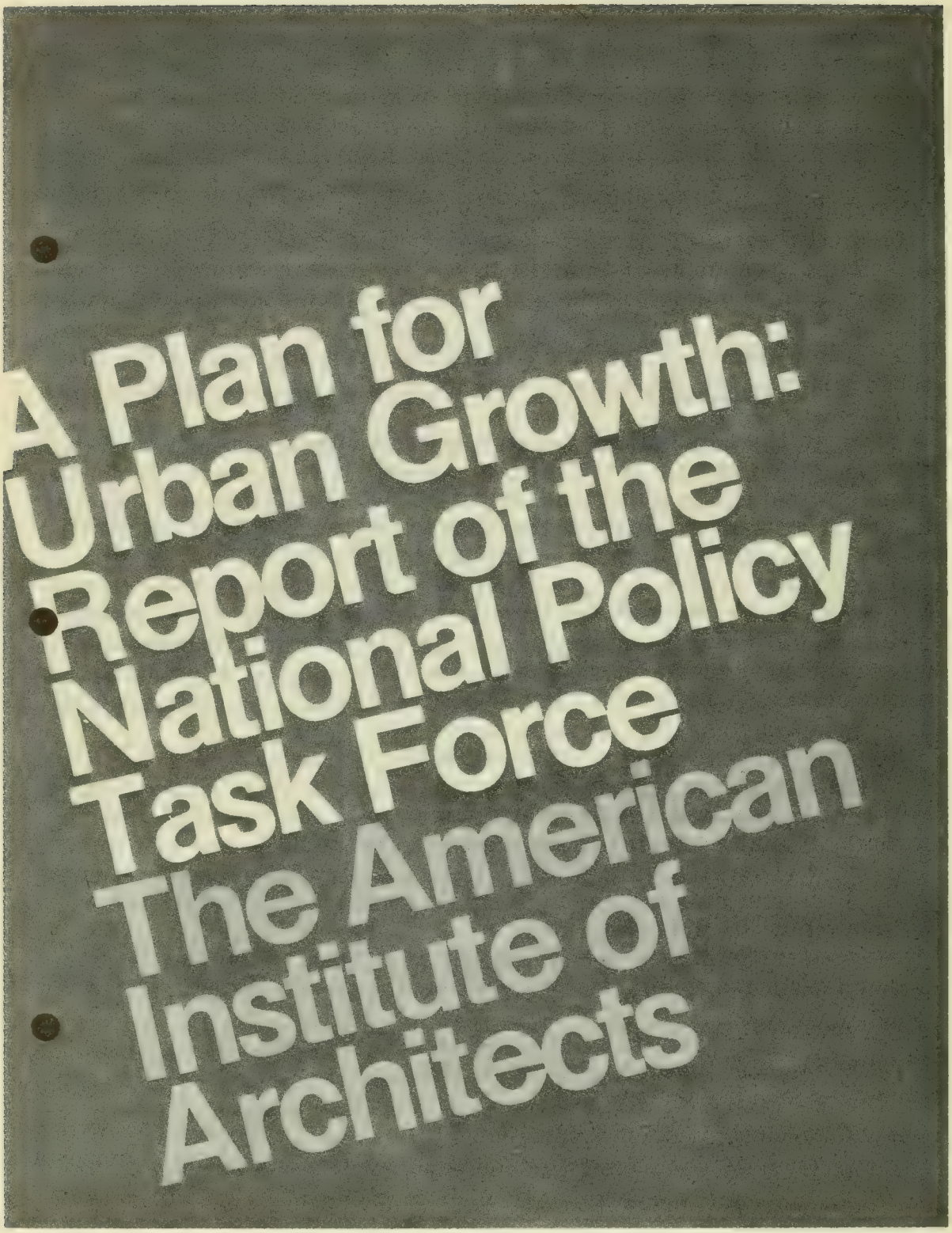
Senator STEVENSON. It will be entered in the record.

Mr. ROGERS. This year, the institute is preparing special detailed reports on re-creating the innercity, creative economics, and housing, which essentially expand on the concepts contained in the first report. We believe that the work of our housing policy task force will be of special interest and assistance to this committee when their report is completed by the end of this year.

Since our comments today are largely based upon our national policy task force report, we request that the report be included in the hearing record.

Senator STEVENSON. It will be entered in the record.

[The report follows:]


A Plan for
Urban Growth:
Report of the
National Policy
Task Force
The American
Institute of
Architects

The plan for national urban growth offered in the following report was formally adopted by The American Institute of Architects at its 1972 convention. Recommendations contained in the report are summarized below.

SUMMARY OF TASK FORCE RECOMMENDATIONS

A. Scale and Form: The building and rebuilding of American communities should be planned and carried out at neighborhood scale (ca. 500-3,000 residential units along with a full range of essential facilities and services) and in a form appropriately called a "Growth Unit."

B. Priorities: The value most to be respected is free choice. First concern should be given the condition of those trapped in the poverty and deterioration of older neighborhoods, especially of the central cities.

C. Changes in the Ground Rules of Community Development:

Free choice should be expanded:

(1) by ensuring open occupancy throughout the entire housing market affected by governmental subsidies and insurance.
(2) by directing needed housing subsidies to people rather than to structures.
(3) by providing locational options, especially by linking development in central and peripheral areas of the metropolis.
(4) by providing for diverse living styles, through Growth Units of varying densities, housing types, and service patterns; also, less restrictive building and zoning codes.
(5) by expanding the possibilities and scope of citizen participation in the design and governance of neighborhoods.

Financing patterns should be revised:

(1) Less reliance should be placed on the local property tax.
(2) State and federal governments should assume a greater share of:
a. infrastructure costs, and
b. costs of social services, especially health, education, and welfare.
(3) The appreciating value of land benefited by public investment should be recaptured and recycled into community facilities and services.
(4) Categorical aids should be broadened—especially the Highway Trust Fund which should be expanded into a more general fund in support of community development.

Government structures should be reshaped and adapted:

(1) Private-public ventures should be encouraged.
(2) Development corporations should be created by federal, state, and local governments.
(3) Metropolitan planning and development agencies should be encouraged.
(4) State governments should participate more directly in planning and regulating the use of land, especially in areas defined as "critical" (e.g., flood plains, coastal regions, areas of acute housing shortages, and areas in the path of rapid development).

Capacity to build at neighborhood scale—both public and private—should be strengthened:

(1) Financial, legal, and other constraints should be reviewed and eased.
a. A steady flow of mortgage money at low and stable rates should be ensured.
b. "Front money" for Growth Unit development should be made available.
c. Public investments in infrastructure should be properly phased and coordinated.
(2) State governments and metropolitan agencies should take a more assertive role in acquiring and preparing land for development—and in building a network of utility corridors to accommodate and give shape to Growth Units.
(3) Tax and other incentives and disincentives should be revised to encourage high quality urban development.
(4) Environmental controls and design standards should be strengthened.
(5) New patterns for the delivery of critical services should be encouraged.
(6) Industrialized building processes should be encouraged.

D. Special Program for Areas Impacted by Rapid Growth and Deterioration:

Priority should be given to the 65 metropolitan areas over 500,000 population.

Within these areas, the public should acquire and prepare one million acres for Growth Unit development.

This development should be explicitly designed to benefit, not detract from, the improvement of the quality of life of those now residing in the older and deteriorating sections.

At average densities of 25 per acre, this special program should accommodate one-third of the expected growth of the U.S. population between 1970-2000.

MEMO

Newsletter of The American Institute of Architects January 1972/Special Issue

THE FIRST REPORT OF THE NATIONAL POLICY TASK FORCE

CREATING A NEW NATIONAL POLICY

A Statement by Max O. Urbahn, FAIA
President

The American Institute of Architects has taken a major step into the future. It is an historic step for our professional society and, to the extent that we persuade our political leaders and fellow citizens to join with us, it will have a major impact on the quality of life in urban America.

I refer to the report of the AIA National Policy Task Force, whose findings and recommendations are set forth in the following pages. The report follows a year's intensive study by a group of distinguished architects with the help of expert consultants. The policies proposed in the report have been unanimously approved by the AIA Board of Directors, including representatives from all geographic regions of the country. They were formally accepted by AIA's Executive Committee on January 3, 1972, and are subject to revision and elaboration at the Annual Convention of the Institute in May.

In brief, the new policies recommended in this report would change the "ground rules" that now shape, and distort the shape, of American communities; create a new and useful scale for planning and building in urban areas; and commit the nation to a major land acquisition policy to guide development in and around key urban centers. These are new policies, but, in the best tradition of American progress, they are built upon the values and precedents of the past.

I am proud to be the president of your Institute at the moment when this new program—the natural culmination of many years of grappling with public policy—comes to fruition. The formal study was begun in the administration of President Robert F. Hastings, FAIA. Yet elements of it have been discussed by AIA boards and presidents over a period of many years.

I urge you to read this report, to communicate with me and with other officers of the Institute, to express your opinions—and, we hope, your dedication to its goals—at the Houston convention. I ask you also to join me in thanking the National Policy Task Force Chairman, Archibald C. Rogers, FAIA; members Ieoh Ming Pei, FAIA, and Jaquelin Robertson, AIA, and the body's two distinguished non-architects, William L. Slayton, Hon. AIA, executive vice president of the Institute, and Paul Ylvisaker, professor of public affairs and urban planning, Princeton University. We are grateful for their far-sighted leadership.



Task Force Chairman Archibald C. Rogers, FAIA, right, and Paul N. Ylvisaker, professional adviser.

AMERICA AT THE GROWING EDGE: A STRATEGY FOR BUILDING A BETTER AMERICA

This report is about America at its growing edge. It outlines a set of policies that can enable this nation—as a responsible member of a threatened world of nations—to shape its growth and improve the quality of its community life.

The strategic objective of these policies is a national mosaic of community architecture designed to be in equilibrium with its natural setting and in sympathetic relationship with its using society.

In brief, the report urges:

A. That changes be made in a number of the "ground rules" (e.g., tax policy, governmental organization, etc.) which presently shape the development of American communities;

B. that the nation develop the capacity to build and rebuild at neighborhood scale (the "Growth Unit") ensuring open occupancy, environmental integrity, and a full range of essential facilities and services;

C. that federal, state, and local governments—in partnership—set the pace and standards for growth policy through a special impact program affecting 60 of the nation's urban regions and a third of the nation's expected growth between 1970-2000.



Task Force members I. M. Pei, FAIA, left, William L. Slayton, Hon. AIA, center, and Rogers.

THE CIRCUMSTANCES WE ARE DEALING WITH

The nation's population has grown and urbanized dramatically over the last generation. By conventional measures, most of us have prospered. Personal and family incomes have generally increased. Housing conditions have improved. National opinion polls consistently find that most of us feel the quality of our personal lives is better. And amid the flurry of sudden growth, we have staked out a substantial range of free choice.

But a lot of things have us worried and dissatisfied—and properly so.

Millions of Americans have not had this range of free choice. Machines have pushed men off the land and into deteriorating cities where they have been imprisoned by rising prejudice and dwindling opportunity. Others have been left behind, trapped in the forgotten hamlets and hollows of rural America.

The nation has been polarizing into richer and poorer, black and white, growing suburbs and declining cities, neighborhoods of higher and lower status and some with no status at all.

Giant urban regions have sprawled into being without the armature of public utilities and services that make the difference between raw development and livable communities.

Jobs have been separated from housing, forcing families to spend more money on highway transportation than on homes and more time on the road than with each other.

Land, money, and building costs have priced more and more Americans out of the conventional housing market, not just the poor, but middle class as well. Construction has lagged for the lower income groups and larger families. Abandonment of existing stock in the older cities has picked up at a threatening rate. Mobile homes have "saved the day" for growing numbers of Americans (though not the minorities), but they have scattered their residents out past the range of regular community life and services.

The technics of our growth have broken loose from the regenerating cycle of nature. The accumulating wastes of this growth—phosphates, plastics, pesticides, heat, hydrocarbons—contaminate our soil, our air, and our water, and cast a growing cloud over our nation and future.

Land has become a negotiable commodity and tossed carelessly into the game of speculation for profit. Once in the market, not only its use but its very existence is subordinated to the highest bidder and shortest-term gain.

The comforts and the hardships, the benefits and the costs of national growth have not been equitably shared. Our tax structure has frequently dumped some of the highest costs on those least able to pay. The education of the nation's children and the general level of community services have been left to the happenstance of local tax ratables and the small politics that exploit them. They breed fiscal zoning, and fiscal zoning has put a damper on the social and economic mobility of the poor and working class.

The social distortions in the development of our communities are reflected in our built environment. For much of what we have built, largely since World War II, is inhuman and potentially lethal. We have created a community architecture which, in its lack of efficiency, its inattention to human scale and values, and its contribution to chaos, adds up to a physical arena adverse to that "pursuit of happiness" which is one of the fundamental rights that stirred us to create a nation. Surely it is as important to bring our physical fabric into conformity with this goal as it is to do so with our social fabric. We cannot long endure an environment which pollutes air, water, food, and our senses and sensibilities.

At the same time that our growth has created an environmental crisis, the governmental process for dealing with growth has been scissored into bits and pieces. Whatever energies and resolves Americans can muster to shape their growth and salvage their environment are dissipated in an almost infinite chain of separate and conflicting consents which have to be negotiated in order to do the public's business. Just when the nation most needs its enterprise, creativity, and an overriding sense of community, stymie and cynicism become the order of the day.

Now another generation of dramatic growth is about to begin. The numbers of Americans in the 25 to 44 age group—traditionally those who create new households—are increasing at a rate nearly nine times that of the past decade. These new households will not likely beget children at the bulging rate of postwar, but they inevitably will touch off a new burst of community formation and urban growth. It is doubtful that these new householders will fit easily into old patterns; many of them will not want to. Families will be smaller; wives will be working; their tolerance of environmental pollution and bureaucratic incompetence will be lower; they will be demanding more for their money and especially the money they are asked to pay in taxes.

And young adults are not the only Americans pressing for places to live—to live better and in many respects to live differently. More and more Americans are living longer; during the seventies an ever growing proportion of our population will have raised their families, retired from their jobs, and started looking for communities that will serve their changing needs. There will be another round of kids with mothers asking for day care, new waves of migrants and immigrants searching for something better than ghettoes to live in, and alumni of the ghetto—increasing millions of them—who have learned from tragic experience not to let even poverty trap them in bad neighborhoods forever and again.

TOWARD A NATIONAL GROWTH STRATEGY: THE POLITICS AND PROMISE OF DIVERSITY

Sharpening awareness of the flaws in the way we've grown accounts for the rising demand for a national growth policy. Our

nation's search for such a policy is a welcome sign of a maturing society, a more civilized and humane America. But just because so many seem to be asking for a national growth policy, doesn't mean that they all want the same policy. And just toting up everybody's unhappinesses about how we've grown—and maybe goofed—doesn't necessarily add up to a policy that's better or more consistent or more salable to the American public.

Not until these differences in need and life style are admitted and understood will we really be on our way toward more productive policies for national growth. These diversities are the facts of life that politicians—especially the President and the Congress—have to deal with if the nation is to have governing policy and not just years of fruitless debate.

In fact, it well may be that a diversified nation which values free choice above all may have to live with a national growth policy which is less than coherent, which contains more inconsistencies than it resolves, which turns the power of conflicting forces into creative energy—and which succeeds because it strives toward unity but does not mutilate its freedoms an all-out effort to achieve it.

We submit this report in that spirit. We are a single profession with our own creative diversities. We have spoken assertively, but only to enrich the national debate, not dominate it. We have tried to convert what we think are legitimate discontents into constructive ideas of how to make America better. And we have taken the risk of translating generalities (this is easy) into specifics (which is tough).

THE BELIEFS AND PREMISES WE START WITH

A. A national growth policy is first of all an expression of national values.

B. The values we most cherish are the worth of the individual and his freedom of choice. These values have been constantly stated in national legislation but not so regularly honored.

C. We believe, therefore, that national growth policy should actually commit the nation to these values, not merely restate them. What has been missing is the public competence that makes both our values and our policies credible: laws with teeth; programs with money behind them; public officials with the power to act, and a willingness to fulfill a leadership role. Private freedom public competence are not incompatible; one needs the other.

D. The goals of national growth policy and the problems it should be concerned with have more to do with quality of life than with numbers. We do not share two of the usual fears: (1) that the American population is too large; and (2) that not enough houses will be built to meet our growing demand. During the past decade, Americans have spontaneously and freely limited reproduction—the birth rate is now at an all-time low. Earlier estimates of how much America will grow in the next 30 years now seem too high—the total may well be as low as 60 million, a number we can certainly care and provide for. Meanwhile, housing starts have picked up; the prospects are that the nation's stated housing goals (2.6 million annually during the 1970s) may be met; and these goals actually may turn out to be too high.

It is not the numbers we should be concerned about but the quality of living and the choice of life style that are opened to Americans whoever they are and however many there may be. This is what we believe Americans mean when public opinion polls regularly report that a majority of them say they would prefer to live in smaller communities. Not that they won't abide living in large metropolitan areas—(despite what they say, most of them have chosen to move and stay there). But they are searching for communities that are more livable. Neighborhoods that are safe, neighborhoods that are within easier reach of jobs and a richer mix of community life and services, neighborhoods small enough to have some identity of their own, where no one need be anonymous while attaining the privacy Americans always have yearned for.

E. It follows, we think, that the measuring rod of national growth should be the quality of our neighborhoods, and the assurance that neighborhoods—even when they change—will not deteriorate. **The neighborhood should be America's Growth Unit. We have made it the theme of this report.**

F. By concentrating on the neighborhood as a Growth Unit, national policy can relate to growth and regrowth wherever it may occur—in rural areas, in smaller towns and outlying growth centers, in metropolitan areas and their central cities, in free-standing new communities. No national policy would be politically salable that did not speak to every condition of America; no national policy would be comprehensive if it did not.

G. Our own guess is that most of America's expected growth from now until the end of the century will occur within existing metropolitan areas—whether all of us would like that to happen or not. The economics and the politics of radically changing that pattern are too difficult; they well may be impossible. Marginal changes, yes; and since we, too, have a general prejudice in favor of "more balanced growth" and against overloading the environment (as we have done, possibly, in some of the Great Lakes and coastal regions) we should be of a mind to encourage these changes.

But realities force us to be realistic. **We therefore conclude that American growth policy should concentrate on improving the present and future conditions of our existing metropolitan areas.**

H. Within these areas, we believe the first priority should go toward improving the condition of the older core cities, more especially the condition of those trapped in poverty and the squalor of declining neighborhoods. Until we deal with the deep-seated factors in American life that give rise to such conditions, all growth in America is vulnerable, no matter how much concern and money are lavished on it, no matter how carefully it may be segregated from those neighborhoods where the contagion of decline is more evident.

I. Growth and regrowth—building new communities and restoring old ones—must go together. We think it folly to try urban

Archibald C. Rogers, FAIA, discusses the report before the December 1971 Board of Directors meeting in Washington, D.C.



renewal in the older, denser neighborhoods before moving and relocation room is made ready elsewhere. That means, we think, a deliberate policy of building new neighborhoods on vacant land before renewal of older neighborhoods is begun.

J. We believe that no national growth policy will work unless there is a broader base for financing the facilities and services that are necessary for more livable communities. The local property tax is no longer enough. We have exhausted it, and now it is crippling us.

There are many possible ways of achieving this broader base of financing. Our own preference is for the federal government to assume far more of the costs of social services such as health and welfare, and more of the costs of utilities. We believe the states also should assume a greater share of local costs, especially of schools, and should do so through a combination of broad-based taxes whose impact is less regressive and its yield more responsive to changes in the general level of the economy.

K. Similarly, we are convinced that an effective national growth policy will require broader perspectives and, in many cases, larger governmental jurisdictions. We welcome signs that the states are readying themselves to participate more actively in community development—even when, as in the case of zoning, taxation, and other matters, they have to be prodded into action by the courts. The states are essential to the development of a national growth policy precisely because their jurisdictions (and hopefully their views) are broader, and because they constitutionally control the ground rules of local government and community development.

We also welcome the signs of new life at the metropolitan level. A promising example is the emergence of regional planning, development, and financing in the Minneapolis-St. Paul area. If indeed most of America's growth is to occur in these areas, some form of regional control must evolve—and soon.

L. And while these broader capacities are developing, we also see the need for more citizen control and participation at the neighborhood level. Neighborhoods have been swallowed up in the growth and change of urbanizing America. The exact forms and functions of neighborhood government can vary; but national growth policy cannot do without the sturdiness and savvy of grassroots support. We see no contradiction in simultaneous transfer of power upward to broader-based levels of government and downward to the neighborhoods. It is not power which is being subtracted—it is capability which is being added.

M. It also follows from our concern with the neighborhood Growth Unit that the architects who design it, the developers who package and build it, the doctors and teachers and lawyers and merchants who serve it, should be given every honorable encouragement to work at this scale. Urban America may be massive, but it has accumulated in a formless way from a myriad of actions and designs that were of less than neighborhood scale. Thought and habit patterns will have to change if we are to build more livable neighborhoods—neighborhoods that fit as building blocks into metropolitan, regional, and national societies.

N. We wonder whether the time has come to consider less affluent standards of housing in favor of higher standards of neighborhood environment, facilities, and services—if indeed the choice must be made. "Less affluent," at least, than is explicit in the spiraling requirements of floor space and lot sizes and building codes that are being written defensively into suburban and other exclusionary legislation. The rising cost of exclusion is even higher than the rising cost of building. The product may well be more luxurious houses but less desirable, certainly less open communities.

O. Finally, we are convinced that an effective national growth policy requires that land development increasingly be brought under public control. This is true particularly of land which lies in the path of growth or that otherwise is crucial to the community's well-being—open space, flood plains, coasts and shores, etc.

We favor public acquisition and preparation of land in advance of development. We believe that the appreciating value of urbanizing land should be recycled into the costs of developing, serving, and maintaining it. We believe that, in many cases, leasing rather than outright sale would be desirable for land acquired and assembled by public action.

BUILDING AT NEIGHBORHOOD COMMUNITY SCALE: THE "GROWTH UNIT"

The Growth Unit is first of all a concept—a general way of saying that America's growth and renewal should be designed and executed not as individual buildings and projects, but as human communities with the full range of physical facilities and human services that ensure an urban life of quality.

The Growth Unit does not have fixed dimensions. Its size in residential terms normally would range from 500 to 3,000 units—enough in any case to require an elementary school, day care, community center, convenience shopping, open space, and recreation. Enough, too, to aggregate a market for housing that will encourage the use of new technology and building systems. Also enough to stimulate innovations in building maintenance, health care, cable TV, data processing, security systems, and new methods of waste collection and disposal. Large enough, finally, to realize the economies of unified planning, land purchase preparation, and the coordinated design of public spaces, facilities, and transportation.

This general scale is consistent with likely trends during the 1970s which will encourage the filling in of open land and the renewal of older neighborhoods within existing metropolitan areas —as well as the expansion of outlying communities (Growth Centers) within the population range of 25,000 to 250,000. It also coincides with the trend toward "miniaturization" which seems to

characterize emerging patterns of consumer behavior and demand and which is producing a new range of facilities such as community health centers, neighborhood city halls, and convenience shopping centers.

Life styles, housing types, and residential densities could vary according to local markets and circumstances.

Larger communities—up to and including free-standing new towns—should be built as multiples of these Growth Units—allowing, of course, for an emerging hierarchy of additional services and facilities such as high schools, community colleges, hospitals, regional shopping centers, mass transit, and utility systems.

The neighborhood Growth Unit relates just as much to the rebuilding of America's older cities as it does to new growth on open land. We have learned the hard way that urban renewal and the rehabilitation of older neighborhoods cannot succeed when done piecemeal, house by house, problem by problem. The job is much bigger than that, and the Growth Unit is a more appropriate scale and way of doing it.

The Growth Unit is based firmly on the principle of open occupancy and equal access to facilities and services. Moreover, by linking growth and regrowth both outside the central cities and within them, the nation can find an orderly way out of its segregated living patterns and the haunting tragedy of its older cities.

Finally, the Growth Unit offers a valid measuring point for environmental performance. It can be planned and judged as a "package" rather than a disjointed accumulation of activities, some of which do and some of which do not meet going standards of ecological innocence.

USING THE GROWTH UNIT IN A NATIONAL GROWTH STRATEGY

Concentrating on the Growth Unit is a practical and incremental way of approaching a national growth policy. But it is not a retreat from major and even radical changes—as those who recently have ventured into large scale development painfully can attest. Architect after architect, developer after developer, large company after large company have tried their hands at building new communities at larger scale. Only a few have survived—and even for them the experience has been bloody. Listed below are some of the constraints and hazards and some of the changes and reforms we think are necessary if this nation is to achieve the capacity to produce livable neighborhoods without all the traumas (and mischief) that presently are involved.

A. Housing and Land Use Policy: Growth Units of the sort we propose will not be built at the rate and scale we propose unless:

1) there is an assured flow of credit at stabilized rates of interest over a sustained period of time;

2) low- and moderate-income families are directly subsidized (through income supplements, housing allowances, "235" and "236" type interest reductions, etc.) at levels equivalent to the housing subsidies now provided higher income homeowners in the form of tax deductions of mortgage interest and local property tax payments (plus what economists call "imputed rents");

3) state governments retrieve sufficient control over local building, zoning, and health regulations to insure an adequate supply of land for large site development—and also land permanently reserved for open space, ecological balance, and communal use.

B. Front Loading: Building at neighborhood scale requires front money equal at least to 40 per cent of the total investment, with no appreciable return on that early investment coming until the fifth to the 15th year. Few are in a position to advance that kind of money and wait so long for a return. Public money and guarantees are still scanty and hard to come by. Except for New York State, they are available only through one limited program of the federal government. These public supports will have to be expanded greatly, both at federal and at state levels.

C. Aggregating Sites: The assemblage of large sites is a problem, but probably less so than obtaining the many consents necessary to develop them—zoning, building codes, etc. For the private developer, time is money; one major developer is reported to have incurred interest costs of $5,000 per day over a year while awaiting the necessary consents. Too many developers have been led into dubious practices in an effort to offset these costs and find ways around these constraints.

The passage of legislation which authorizes planned community development promises some relief. Probably more important will be an arrangement that allows for someone other than the developer to hold the land until the consents have been negotiated and the developer can move immediately to build.

D. The Public Infrastructure: Another barrier is the shortage of public funds for the necessary infrastructure and community services. We propose that the federal and state governments plan and construct networks of utility corridors, including transit, water, sewage, electricity. These would constitute the skeleton of utilities on which Growth Units could be fastened.

At the level of a single project, the scale of development that we propose requires a long-term and disciplined schedule of public spending geared closely to the efforts of the builder.

E. Removing Tax Disincentives: Both federal and state tax systems are replete with impediments and disincentives to building and rebuilding at neighborhood scale. The Internal Revenue Code encourages a quick-build-and-sell posture for the developer; it discourages his staying around to make certain that the costs and concerns of management and upkeep are given equal attention as the cost of construction.

F. Tax Incentives: Building communities is far more complex than the single missions which become manageable profit centers for a business enterprise. Congress might declare the building of Growth Units to be in the national interest, and make special tax and other provisions to enable American enterprise—under tight performance standards—to make the long and broad commitments that the job requires.

G. Property Tax: America's dependence on the local property tax is especially hurtful. By tying practically all costs of community development to local ratables, it causes undue hardships to the builder and the citizen alike. The apparent answer is to move toward broad-based taxation at state and federal levels. It also suggests moving certain costs from local to state and federal governments.

H. Revenue Sharing: Any sharing of revenue by the federal government with the states should be conditioned on certain reforms, including a restructuring of the property tax system, zoning and building codes, and reallocation of infrastructure costs.

I. Governmental Structures and Process: Governments in America—federal, state, and local—are not organized to facilitate the kind and scale of development we propose. Major changes and innovations are in order:

1) at the federal level, some analog of a national development corporation capable of negotiating the necessary bundle of federal grants and consents; dealing with counterpart state, local, and private development agencies; and tapping national money markets;

2) at the state level, development corporations emulating and going beyond the pioneering example of New York State;

3) at the metropolitan level, public and public/private corporations subject to regionwide planning and participation, and oriented both to redevelopment of the inner city and to new development on open land.

J. Categorical Grant Programs: The tradition of categorical funding that long has been followed in American government needs to be modified. Above all, the Highway Trust Fund, we think, must be converted into a general fund for community development and greatly expanded. If this self-regenerating fund is not refashioned to serve our highest priority needs, the nation will place itself in bondage to the automobile and superhighway.

USING THE GROWTH UNIT IN COMMUNITY DESIGN

A national strategy based on the Growth Unit requires the use of tactical stepping stones in the design of communities which will be in harmony with human needs and the natural environment. Such a strategy must be a long-term commitment. Its integrity must be maintained consistently, although it may require continuous updating to accommodate changes we cannot foresee. Commitment to a long-term strategy based on such fundamental principles as freedom of choice and the worth of the individual demands tactics that emphasize flexibility and diversity.

Community design based on the Growth Unit should embrace the following principles:

A. Equilibrium: The design should be economical in its consumption of natural resources. It should minimize the emission of harmful effluents and encourage emissions that tend to replenish natural resources. The need for transportation should be reduced by intermingling of residential and other uses. Community services (health care, education, security, etc.) should be consciously designed as systems and subsystems.

B. Symbiosis: The design should provide a beneficient and nourishing relationship between the physical environment and its using society. The surest means of attaining this relationship is to encourage community participation in the design process.

C. Satisfaction of Spiritual Needs: The design must satisfy the individual user's need for reassuring symbols that speak to him from the natural setting and from architecture within this setting. It must satisfy his need for symbols of place and personality which distinguish one person and one community from another—his need for an environmental order that denotes purpose in life.

D. Expansion of Locational Options: Just as the national strategy emphasizes freedom of choice of location, design of Growth Units should reduce barriers based on economics or race or age. This means that transportation, industry, and commerce must be placed with attention to their social consequences.

E. Expansion of Qualitative Options: The design mosaic must provide a rich variety of living environment matching the variety of life styles within our society.

F. Open Space Preservation: Community design must preserve open space at all geographic scales from the national to the local. Certain areas should be precluded from development either because of natural features that are hazardous to residents or where development would threaten ecological balance or recreational values.

G. Historic Preservation: Our historic heritage must be preserved from destruction or erosion if a sense of individual and community identity is to survive. Preservation of historic buildings and communities will require the discovery of new uses as original uses become obsolete. Some historic structures may have to be altered and modernized to accommodate contemporary functions. We also must look to the values in contemporary architecture that may in time have historic significance.

H. Public Investment as a Key to Development: Public utilities and facilities can be used to determine settlement patterns, both nationally and at the level of the single Growth Unit. The network of transportation and communications corridors should be the essential basis for comprehensive planning within the proposed communities and for their external connection with the existing community fabric. It should be designed and put in place incrementally in accordance with the largely private development of housing, commerce, and industry. Since this infrastructure is relatively permanent, it should be generous in its dimensions in order to permit accommodation of future technological developments. It should be seen as the opportunity for expression of great civic art and architecture.

I. Amendable Architecture: The design should provide a physical fabric that is amendable by its occupants to accommodate changes in life styles, technology, and economic circumstance.

J. Reduced Cost of Shelter: Design should seek to reduce the cost of housing. Off-site manufacture is one method of pursuing this goal, but care must be taken to produce a kit of parts that



Member Jaquelin Robertson (right) raises a key point at Task Force meeting in Princeton.

can be assembled in many differing ways to provide environmental variety. The design should take maximum advantage of the reduction in governmental constraints which must be a part of a national growth strategy. Better quality and workmanship can be attained once such constraints are removed. The unearned increment in the value of the land should be recaptured by the public, instead of becoming part of the inflated cost of shelter, as it does now.

K. Experiment with Change: We must deliberately experiment with change. This, in turn, will require that public funds be available to finance experimentation. Each Growth Unit can be a laboratory for new applications of technology and design. Procedural experimentation could involve the using community and public/private and multidisciplinary development teams in an open "Trialogue." The behavioral sciences can be involved in the development of a more sophisticated basis for establishing user needs. New ways of determining costs and benefits could take into greater account intangible factors and qualitative benefits.

THE GROWTH UNIT AND THE URBAN CRISIS*

The neighborhood Growth Unit applies to all America. But some parts of the nation's society and landscape have been, and will continue to be, especially impacted by growth. We believe a more specific and concentrated response should be made to the problems of the nation's declining central cities and their fast-growing metropolitan areas.

There are approximately 65 metropolitan areas in this country with 1970 populations of 500,000 or more. These 65 urban regions accounted for half the nation's total population, over half of the nation's black population, and 60 per cent of the nation's total growth during the decade 1960-70.

Currently, 80 per cent of America's growth is taking place within existing metropolitan areas. In all probability, the metropolitan areas cited above will continue to absorb the lion's share of national growth and the problems that go with it.

Without foreclosing (actually it could be planned as part of) a national strategy that might attempt to shift growth from these urban regions, we propose that the federal government join immediately with the affected state and local governments in developing growth plans for these critical areas.

These plans should include the following elements:

A. Governments involved immediately should assemble one million acres of land for community development within the core cities and in the metropolitan periphery. (We would estimate the cost of acquiring this at $5 billion.) The appreciating value of this land—realized by lease and sale over the next 30 years—would be enough to cover its original cost plus a large proportion of the costs of preparing the land for development.

B. A third of the nation's growth (20 million) during the next 30 years could be accommodated on these one million acres at average densities of 25 persons per acre—far under the present densities of troubled core cities, and within range of current consumer choice and economic feasibility.

C. The building block of this development would be the neighborhood Growth Unit—500 to 3,000 dwellings, 2,000 to 10,000 persons—built either singly or in multiples which over time would be fitted together into larger satellite communities.

D. The development of these Growth Units should be staged to provide relocation and elbow room for the restoration of older neighborhoods in the core area. Open occupancy would be ensured—with the end result that no one sector of the metropolitan area would be—or feel—overwhelmed.

E. The social mix of these neighborhoods would be further ensured by housing subsidies and allowances covering housing rental costs exceeding 25 per cent of family income. These subsidies also would be available to families filtering into existing housing throughout the metropolitan area.

F. The federal, state, and local governments would join in planning and paying for the necessary infrastructure—particularly transportation and utility corridors which would weave these Growth Units into the existing fabric of metropolitan life: jobs, education, health care, etc.

G. The economics (and for that matter, the politics) of these selected metropolitan areas should be pooled—benefits (such as new ratables) as well as costs. As a matter of first principle, new growth should not be allowed to occur as an escape from, or at the cost of, the revitalization of older neighborhoods.

H. Zoning and building codes for these Growth Units should be developed jointly by the three levels of government, with the states taking a strong initiative.

NATIONAL GROWTH STRATEGY AS AN INVITATION TO CREATIVITY

Community building of the sort we propose is a many-sided challenge.

A. A challenge to developers, planners, and architects to anticipate and give creative expression to the emerging life styles of a richly diversified American people. The trends clearly are moving in the direction of smaller families with working mothers. The trends seem also to be moving toward residential densities lighter than those of the central city but heavier than those of existing suburbs. They also are moving toward the requirements, certainly an expectation, of a rich array of critical services, such as day care,

* This builds upon a forthcoming paper by Bernard Weissbourd.

health, and continuing education. They also are pointing toward a greater degree of privacy and security. The art will be to put all these together into a working and livable community: the Growth Unit invites that art.

B. A challenge to those committed to the integrity of the environment; to produce increments of growth that are less hostile to man and nature, which continuously reduce the pollution of land, air, and water; and maintain open spaces and green belts for recreation and tranquility.

C. A challenge to all of us who must exact more and more resources which—at least relatively—are dwindling. Multiple purpose space and reusable resources will be the order of the day and will require all the inventiveness and ingenuity we can command.

D. A challenge to restructure the financing and delivery of critical services, especially health, education, and security in the face of escalating costs and consumer dissatisfaction. We believe strongly, for instance, that electronic information systems should be incorporated routinely as part of the community's infrastructure. There is also the prospect that imaginative use of cable television can reshape public education.

E. A challenge to each of the special skills, disciplines, and professions which historically have worked in isolation and are now being forced by the logic of complexity to meld their activities.

F. A challenge to develop new forms of joint enterprise, both within the private sector and between business and government.

G. A challenge to find new ways of resolving the dilemma of dividing trends, on the one hand, toward more distant government of greater resources and scope and, on the other, toward neighborhood control.

It is not easy to develop governing policy for a diverse nation in the full cry of its existence. It would be much easier to let the cup pass and continue to build the world's first throw-away civilization.

But if we are to achieve some coherence and not let freedom vanish into chaos, we have no alternative but to deal with all the tumbling forces and facts of the here and now, and then find levers that have the power not only to move but to win majority consent.

We have chosen the neighborhood Growth Unit as one such lever. It is within the grasp and values of every American. What we urge that the nation see and grasp it as part of a national strategy—to make of this country what it can and must be—a society confident and united enough to enjoy the richness of its diversity. Livability of that kind does not come by accident; even free choice requires design.



TASK FORCE MEMBERS

Members of the Task Force on National Policy are:

—Archibald C. Rogers, FAIA, chairman; Chairman of the Board of RTKL, Inc., Baltimore. He developed planning guidelines for a team approach to highway planning, which led to establishment of the Urban Design Concept Team assembled to plan Baltimore's expressway system.

—Ieoh Ming Pei, FAIA; principal, I.M. Pei and Partners, New York. His firm was responsible for planning and design of Philadelphia's Society Hill redevelopment; a renewal plan for Oklahoma City's central business district; Montreal's Place Ville Marie, and a master plan for redevelopment of downtown Boston.

—Jaquelin Robertson, AIA; currently director of the Office of Midtown Planning for New York City; formerly head of the urban design group within the city's planning commission.

—William L. Slayton, Hon. AIA; executive vice president of t. Institute; formerly Commissioner of the Urban Renewal Administration, Housing and Home Finance Agency; later president of Urban America.

—Paul N. Ylvisaker, professional adviser; Dean of the School of Education, Harvard University; formerly commissioner of community affairs for the state of New Jersey, and later professor of public affairs and urban planning, Princeton University.

AIA IMPLEMENTATION

A major task of AIA is to see that the recommendations of the report are actually put into effect. This will take considerable effort, but the report serves no purpose if AIA is not committed to, and geared up for, the report's implementation. This will take several forms.

The first effort is in the field of legislation. AIA, with technical assistance, will draft proposed federal legislation, establishing incentives and process for seeing that the Growth Unit becomes the concept whereby rebuilding and new growth are given form and direction. AIA will testify before Congress on its proposals as embodied in the Task Force report, and it will lobby for adoption of the legislation it proposes. It will work through its Minuteman Program for lobbying of individual members of Congress by individual members of AIA.

AIA will also work closely with those federal agencies involved in programs of urban development to persuade them to react favorably to AIA's proposals.

At the state level, AIA, again with technical assistance, will draft several pieces of alternative state legislation to enable the state to put the urban growth concept into practice. AIA will work closely with its state organizations to assist them in lobbying for, and advocacy of, the proposed model state legislation. AIA will also work with the Council of State Governments to have its proposed model legislation included in their model legislation publication.

At the political level, AIA will appear before the Republican and Democratic platform committees to urge inclusion in party platforms of the AIA proposal. AIA will ask its chapters to quiz Senatorial and Congressional candidates on their position on the AIA Growth Unit proposal.

AIA is requesting appearances at the conventions of other organizations and groups so that it can present the Growth Unit concept and encourage these other organizations and groups to adopt the AIA proposal.

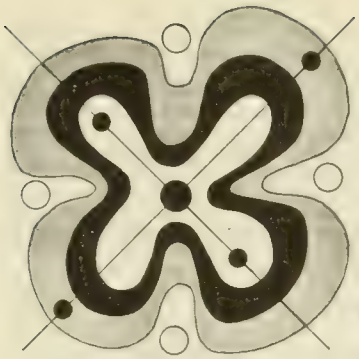
AIA will be adding to the substance of the Growth Unit concept by undertaking additional studies that will go into the technical aspects of its recommendations. For example, AIA will hold a small seminar of people eminent in the field to discuss the subject of constraints, and to see how such constraints can be removed to make the building process simpler and more economical, and assist the building of growth units.

Similarly, AIA will be preparing a national housing policy outlining the specifics of a national housing program aimed at providing subsidies to the user rather than to the housing unit. AIA, with technical assistance, will examine the question of tax incentives and disincentives to see how they might be modified to encourage the development of Growth Units as outlined in the Task Force Report.

AIA hopes, with foundation or governmental support, to encourage a local government or state to establish a program as soon as possible to make the building of Growth Units possible to "test" the recommendations of the report, including the building of Growth Units.

On the public relations side, AIA will provide information to newspapers and magazines about the urban growth report and will publicize additional material as it is produced. AIA may place ads in newspapers or magazines urging citizen approval and support of the Growth Unit concept. AIA hopes to prepare a packet for its components, including visual aids, so that the components may make presentations to local governmental officials and local civic leaders explaining the report and urging its support. AIA will work to obtain time on national television for presentation of the concepts embodied in the report, and would like to prepare TV and radio spots so that the message can reach the widest possible audience.

In all of this, the aim of AIA is to encourage the greatest debate possible on the basic question of giving direction to, and controlling the character of, urban growth and urban rebuilding. AIA will be espousing its own particular and specific recommendations, but AIA's major objective is to see that this question receives widespread discussion and that legislation and mechanisms to permit America to control its urban growth future are established. This will never be done unless the debate gets under way: AIA intends to see that the debate does get under way.



MECHANISMS

Execution of the Growth Unit concept requires governmental mechanisms or institutions. Their creation requires federal-incentive legislation and state-enabling or institution-creating legislation. These mechanisms can be in several forms. Those discussed below are examples.

At the metropolitan scale, one needs a metropolitan planning and development agency to deal with the rebuilding of the worn-out portions of the metropolitan area, with control over the direction and form of peripheral growth, and with building of the interstices, in-filling those areas leapfrogged by development.

The metropolitan planning and development agency should be responsive, in an electoral way, to the residents of the metropolitan area. Methods of election and representation would be determined by the interests of the individual state.

Although such a metropolitan planning and development agency should exercise the metropolitan planning function, it must also have authority, with teeth, to see that its development plan is actually carried out. Development follows urban umbilical cords—transportation, communications, and utilities. To direct growth, one must control the infrastructure. Thus, this agency must have authority over the location and timing of major infrastructure development—major roads, mass transit, major water and sewer lines, airports, open space, state and federal office buildings, publicly owned or financed hospitals, and any other public investment that influences economic development and determines the pattern and character of future urbanization.

The metropolitan planning and development agency must also have the authority of eminent domain to do the following:

(1) acquire vacant, or quasi-vacant, land in the urbanized portion of the metropolitan area to encourage the building of growth units in these areas. This is the in-filling process.

(2) acquire land in the deteriorated portions of the metropolitan area at a scale to enable the building of Growth Units redevelopment.

(3) acquire land in the path of development to at least diminish speculation in land and to establish the character of future development.

(4) acquire raw land on the somewhat removed periphery of the urbanized area in order to build Growth Units or multiples of Growth Units.

Once such land is acquired, the planning and development agency should prepare broad-based plans for its development, install the necessary utilities and public facilities, and then lease or sell the land to those developers who agree to build in accordance with the prescribed plan and who also agree to provide housing for a specified spectrum of economic groups. The rate of land disposition should be geared to the rate of urban growth for the metropolitan area; and the metropolitan planning and development agency would, by this method of land acquisition and disposition, determine the pattern and character of future growth.

A metropolitan planning and development agency should be able through this process to acquire sufficient land so that the prices of its offerings keep in line the speculative land values of private holdings in other portions of the metropolitan area.

The metropolitan planning and development agency should also be given the authority over the location of housing for low- and moderate-income families. Real freedom of choice requires not only that there be housing for all races and income groups throughout the metropolitan area, but that it be in sufficient quantity to assure the actual availability of housing units.

Within the inner city, the metropolitan planning and development agency should concentrate on relatively long-range (15-20 years) Growth Unit development plans, recognizing that th transformation of inner-city areas takes time and that housing must be available prior to displacement if large-scale land acquisition and development are to take place. Emphasis should be on early installation of good public facilities, particularly schools, to improve the area's public investment character. When rebuilding takes place, it must be for all income groups and all races. Replication of the socio-economic character of the area before clearance is not the objective. Although Fort Lincoln in Washington, D.C., is not a clearance area, it is a good example of this approach. Such areas must be rebuilt to attract middle- and upper-middle-income families as well as low: white as well as minority families.

In order to maintain control over development, the metropolitan planning and development agency should have control over all major (relatively large and large-scale) zoning decisions in the metropolitan area. There should also be a uniform building code for the metropolitan area.

Such a metropolitan planning and development agency would not serve as a municipal government, carrying out normal municipal services such as police, fire, street repair, library services, etc. Existing political jurisdictions would continue their municipal, governmental functions, but they would be relieved of the functions previously itemized. In fact, one would hope for the establishment of some form of neighborhood, quasi-governmental institutions, within the central city, to deal with neighborhood municipal functions on a neighborhood (Growth Unit) scale.

And finally, but still most important, is the necessity of equalizing the property tax throughout the metropolitan area so as to remove locational bias for economic development.

At the state level, it might well be desirable to create a state urban development corporation, much like the New York State Urban Development Corporation, with the authority to acquire raw land for the construction of new towns, but not within the jurisdiction of metropolitan planning and development agencies

where such agencies exist.

Also, it is important that the state, with federal assistance, assume the cost of financing public education so as to relieve the cities of this considerable burden. Each state will determine its means of financing.

The states also ought to adopt enabling legislation encouraging the creation of PUDs (Planned Unit Developments) to assist private holders of substantial acreages to develop such areas along the guidelines of the Growth Unit.

The state should also adopt statewide performance-oriented building and other codes relating to the construction, maintenance, and safety of structures.

At the federal level, the government should take over the costs of welfare, thus relieving the state and many local governments of the welfare burden. Here again, there is no prescription as to the means of financing.

In order to encourage the states and localities (metropolitan areas) to undertake these kinds of development programs, the federal government should provide incentive grant legislation. Assistance in the financing of major infrastructure should be given to those metropolitan areas where an adequate governmental mechanism has been established to carry out a development plan.

In addition, as a means of encouraging metropolitan areas to proceed with such action as quickly as possible, the federal government should provide financing for the acquisition of one million acres in the 65 metropolitan areas where the population is in excess of a quarter of a million. The location of this acreage should be determined by the metropolitan area agency (or the state, in the absence of such an agency) and some of it, of course, will consist of present federal holdings.

In the field of housing, the federal government should intensify its experiments with the subsidy of the family, rather than the housing unit, and try to transform housing subsidy programs so as to remove the stigma of housing built specifically for the poor or lower-middle-income groups.

The federal government should also provide incentives, similar to the Title VII incentives for new towns, to encourage metropolitan planning and development agencies and statewide urban development corporations to acquire land by eminent domain or direct purchase to provide for the building of Growth Units and new communities. These incentives could provide assistance in financing land acquisition and in subsidizing the installation of the necessary public utilities and facilities.

Title VII of the present Housing and Urban Development legislation leaves location and timing of new town developments to the happenstance of private developer land holdings rather than to public decision. Federal legislation should emphasize, in fact require, that the incentives be granted to only those developments that are in accord with the metropolitan development plan —a development plan created by an agency with the authority to see that the plan is actually carried out.

A possible additional mechanism at the federal level is a national urban development corporation, working with a national development bank, to undertake the building of several experimental Growth Units or new towns to learn first-hand the difficulties and potentials of various kinds of development. The Minnesota Experimental City is a good example of this possibility.

These mechanisms must also be geared to making the process of private development a simpler operation than it frequently is with the constraints now established by local government. The role of the planning and development agency will provide the private developer with the assurance of being able to acquire land at nonspeculative prices. He will also have the assurance that he will be building in a planned development; he need not fear the impact of uncontrolled adjacent development. But in addition, the private developer should be free, within the constraints of the Growth Unit's overall plan, to build as he sees fit. An aim of the metropolitan planning and development agency should be to establish the simplest process possible for the processing of the necessary plans and building permits.

Within this mechanism, some special financial incentives should be included to encourage experimental Growth Unit developments. Such incentives might be in the form of governmental assumption of some of the financial risks plus adequate funds for substantial research in this area.

In some instances, states may feel it more desirable to retain for themselves greater authority over urban development in the urbanized areas within the state and may wish to establish centralized authority over zoning, land development, review of plans, etc.

There is no one specific mechanism for controlling and directing urban growth and rebuilding, but the principle of public determination of where such development takes place is essential. It is also essential that there be public control over the distribution of housing for a spectrum of economic groups throughout the metropolitan area, for otherwise there would be no assurance that actual freedom of choice as to housing location and style would be provided.

Mechanisms should also be established to deal with the expansion of smaller communities. Here it is probably necessary to use a state urban development corporation and the state's planning capacity to create development plans for smaller communities, and then actually undertake the acquisition of land and the development of Growth Units.

And finally, there needs to be a more careful examination of the existing mechanisms of rebuilding inner-city areas. We have reached the point where the constraints for rebuilding are so great that it is virtually impossible to rebuild inner-city areas at a scale sufficiently adequate to change their character. We have seen examples of relatively small-scale redevelopment in inner-city areas fail because the character of the entire neighborhood was not changed. The principle of citizen participation is very important, but citizen participation should not be translated into veto power by the local citizens. The sample principle applies, of course, to those suburban communities which, through the zoning ordinance, have vetoed housing for minorities and the poor in their communities.

There should be a mechanism that provides technical assistance to an area's residents to aid them in evaluating and proposing plans for the development and redevelopment of their area. But, such plans must also be reviewed in light of the development program for the entire metropolitan area. Adequate consultation and consideration of the views of the residents of any area that is to be redeveloped, or where development is to take place, must be given. The process should be one of full consideration and review, but the governmental agency must have the clear authority to carry out the development program. This probably will be the most difficult mechanism to establish, and yet our cities will continue to disintegrate unless we find a mechanism that permits their rebuilding at a scale that creates entire new neighborhoods (Growth Units) that are open and attractive to all races and all income groups.

This sketches out the mechanisms needed for implementation of the concept of the growth unit. The details will vary among the states, but these are the essential principles. If America is to be effective in controlling the character and direction of its urban growth and rebuilding, then it must have such mechanisms.



DOCUMENTATION

Page 2, column 2: "The numbers of Americans in the 25-44 age group . . . are increasing at a rate nearly nine times that of the past decade."

Source: U.S. Census Bureau

1960 Data: 1960 Detailed Characteristics
Vol. 1, Part D. Table 161

1970-80 Data: Current Population Reports, Estimates and Projections Series p. 25, No. 470, Nov. 1971

Age	1960 Actual (In Thousands)	% Change	1970 Actual	% Change	1980 Projection
25-34	22,822	10.8	25,278	45.9	36,900
35-44	24,076	—3.9	23,126	10.1	25,457
Total	46,898	3.2	48,404	28.8	62,357

Page 3, column 1: ". . . The birth rate is at an all-time low . . ." Source: National Center for Health Statistics, Provisional Report for 1971 (reported in the *N.Y. Times*, March 2, 1972). The 1971 crude birth rate of 17.3 is the lowest *corrected* birth rate on record.

Page 3, columns 1 and 2: ". . . the total (Growth in Population by the Year 2000) may well be as low as 60 million . . ."

The following estimates of population growth show a range of 61.5 to 83.5 million additional people by the year 2000, depending upon fertility levels and timing patterns. Immigration (currently about 400,000 per year) and mortality rates are assumed to remain constant in these projections. The *fertility level* is the average number of children per woman upon completion of child bearing. The timing *pattern* of fertility relates to the median age of the mother.

Assumptions	Fertility Level	Fertility Timing Pattern	Projected Population by 2000 (In Millions)	Increase over 1970
1. Census Bureau Series E rate* ("Replacement" rate leading over time to Zero population growth)	2.110	Old	266.3	61.5
		Young	271.1	66.3
2. Approximate fertility rate for 1971**	2.284	Old	273.3	68.5
		Young	279.4	74.6
3. Census Bureau Series D rate	2.45	Old	280.7	75.9
		Young	288.3	83.5

* Census Bureau, *Current Population Reports*, p. 25, No. 470, Nov. 1971
** National Center for Health Statistics, *Provisional Report for 1971*

Page 3, column 2: "Meanwhile, housing starts have picked up . . ." Source: 92nd Congress, 1st session: *Third Annual Report on National Housing Goals*, June 1971, p. 4

Housing Goals and Production
(Thousands of Units)

Year	Goal	Actual
1969	2,001.0	1,997.2
1970	1,850.0	1,791.9
1971	2,040.0	ca. 2,100.0*
1972	2,330.0	Est. 2,295.0-2,765.0

**(President's Report on National Growth, 1972; p. 60)*

Page 7, column 1: There are 65 metropolitan areas in the United States with populations of 500,000 or more. These 65 metropolitan areas accounted for 50.4% of the nation's population, 58.9% of the nation's black population, and 60.4% of the nation's total growth from 1960-1970.

Source: U.S. Census

Mr. ROGERS. Mr. Chairman, I should now like to make some general comments on five major areas in community development legislation.

GRANT CONSOLIDATION

The American Institute of Architects wholeheartedly supports the idea of grant consolidation. For too long the Nation has been struggling in a quagmire of redtape in our community development programs. Urban renewal, neighborhood facilities, open space, basic water and sewer facilities, section 312 rehabilitation loans, public facility loans, and Model Cities are each programs whose objectives we fully support, but whose operational characteristics leave much to be desired. Consequently, the institute welcomes the initiatives by Congress and the administration to consolidate the present patchwork of categorical grant programs for community development into a revenue sharing or a block grant format.

GUARANTEED FUNDING AND PROGRAM CONDITIONS

One of the most frustrating characteristics of the existing community development programs, particularly to local agencies, is the inconsistent and unpredictable nature of program funding. We believe that community development should be supported at the local level by relatively constant Federal funding programs. A second and equally frustrating characteristic of the present programs for local governmental officials is the continually changing and often conflicting program requirements. We support the establishment of uniform requirements as well as simplification and continuity in the funding of community development programs.

FEDERAL GOALS STILL ESSENTIAL

The administration's bill almost totally ignores the prosecution of national community development goals in its proposed Better Communities Act. This is unacceptable. State and local governments enact budgets which commit close to $200 billion a year of locally generated revenues. The record of these governments in achieving national housing and community development goals using their own funds, particularly in metropolitan areas, has been bleak. Indeed, the categorical programs which would be terminated by the pending legislation, were enacted to overcome these deficiencies. We conclude that any community development legislation must insure continued pursuit of national goals, including housing, renewing the wornout sections of cities, sound metropolitan development patterns, and the building of new neighborhoods and communities.

INCENTIVES FOR LARGE-SCALE DEVELOPMENT

After many years of study and close involvement in the community development process, we have come to the conclusion that the Nation can best achieve its physical, economic, and social objectives in the community development field through an increase in the scale of development. We call this new scale of development the "growth unit." A growth unit can range in size from 500 to 3,000 dwelling units and

would provide a complete package of physical and social facilities at the neighborhood scale. We believe that an increase of scale of development is the most productive technique to achieve national community development goals. Our national policy task force report documents in detail our analysis which leads to this conclusion.

THE INTERNATIONAL BASE FOR COMMUNITY DEVELOPMENT

In Title VII of the Housing and Urban Development Act of 1970, Congress declared that national urban growth policy should "strengthen the capacity of general governmental institutions to contribute to the balanced urban growth and stabilization." For the next 30 years some 18 million acres of land will be urbanized. Effective governmental controls are desperately needed to guide the conversion of this land from rural to urban use. The 228 metropolitan areas which census data suggest will accommodate the bulk of growth for the next 30 years will include 406 counties, which are governed by 20,755 separate governmental units. The Chicago metropolitan area has 1,113 local governments; Philadelphia, 871; and Pittsburgh, 704.

None of the community development block grant bills adequately support the need for institutional change, particularly at the metropolitan level. Unless substantial incentives are provided in this community development legislation for institutional change, we will merely continue the present piecemeal, inefficient, and inequitable community development processes which have led to unattractive, socially imbalanced, and often ill-conceived and mislocated urbanization.

The American Institute of Architects believes that steps should be taken to eliminate the present fragmentary Federal effort toward community development and implement a coordinated, comprehensive approach that deals effectively with all the interrelated elements.

The comprehensive approach we are advocating should address itself to the five points which were just outlined. In the second section of our formal written statement for the record we offer some specific provisions to back up our recommendations in these five areas.

We would be pleased to work with you and your staff further on this legislation and trust that the committee will review our recommendations closely and act favorably on them.

Now, Senator Stevenson, with your permission, we would like to present a brief slide presentation on our ideas for growth at the neighborhood scale. In the second section of our formal statement for the record, making specific legislative suggestions, as well as in the preceding general comments, our emphasis is on the importance of planning and development at the metropolitan scale.

At the other end of the spectrum, however, we are also emphasizing the importance of planning and development at the neighborhood scale. Here we are speaking of growth units, by which we mean new and renewed neighborhoods, perhaps as small as 500 housing units or as large as 3,000; in any case, sufficiently large to provide a full range of community facilities, both physical and nonphysical—housing, shopping, recreation, employment, public services, et cetera. These units could be placed within the interstices of existing urbanized areas in metropolitan areas.

I will now depart from the text in order to save time.

[Slide.]

The first slide shows where we think the problem is, the 65 largest metropolitan areas in this country, those of over 500,000 in population as of the last census. We think that the focus of the legislation you are considering should be on these areas and that the vacant land in these metropolitan areas should be assembled and converted to the use of growth units; that is, new neighborhoods, as a condition precedent to the renewing of old neighborhoods.

[Slide.]

We examined one such metropolitan area as shown in this slide. It is theoretically anonymous but looks suspiciously like the metropolitan area of Baltimore. Here we discovered some 10 to 15,000 acres of appropriate cleared land, ranging from the small white dots right in the core of the city—here I think due to a misguess on an urban freeway system—to potentially large new towns adjacent to the urbanized area outside the city. In all, we discovered that Baltimore could accommodate a large share of new neighborhoods without (1) going beyond the present urbanized area; without (2) having these all in one part of the city, either the inner city or the suburbs; and without (3) taking any parklands which exist or should be committed to park use.

[Slide.]

The growth unit we envision therefore is a new neighborhood physically, functioning, socially. It could be put into an existing cleared site at the core of an urban area.

[Slide.]

As residents move out of dilapidated and unsound and unsafe units, perhaps with the help of rent supplement programs, it would then be possible, on a gradual voluntary relocation basis, to go into these dilipadiated communities and gradually upgrade these to the standards of new growth units or neighborhoods.

[Slide.]

At the same time, we would be seeking opportunities in the suburban areas to put in growth units as, for example, over a large regional shopping center which is shown in this slide. This shopping center has as many as 60 acres devoted to parking and capable of being platformed and then developed as a high density suburban growth unit. We believe the movements might be partly in the inner city to the new city and partly from the inner city to the suburbs.

[Slide.]

We are not opposed to the larger scale new towns, but we believe it is more realistic for these to be developed by a gradual addition and insertion over a period of time of these new neighborhoods. We believe further that these will tend to be more successful adjacent to existing large metropolitan areas than out in the boondocks.

[Slide.]

Nor are we unaware of the problems of smalltown America. We believe the principles that we are talking about of new and renewed neighborhoods could be used to gradually expand the smaller cities, perhaps those at the scale of 50,000 in population, thereby creating

opportunities for redoing their older sections physically and economically.

[Slide.]

And finally, the growth unit is also conceptually applicable to the problems of rural America, and to the suggestion of perhaps using these as small activity centers.

The goal of our recommendations is this: To expand the options of where our people live; and to expand the options of how they live. The prior six slides have dealt with the options of where our people may live. The next two simply show comparable stylistic alternatives suggesting options of how our people may live. We should be designing in many varied ways to fit the true kaleidoscope that is our society. We must recognize the differences in lifestyles and provide the physical arena in which these lifestyles could be properly expressed.

[Slide.]

First, we might see at one end of the stylistic spectrum a fairly conventional low density suburb-type community and at the other end a high density and urbane community, with many alternatives in between. These two slides therefore focus on expanding society's options for how it wishes to live.

[Slide.]

The strategy for all of these 65 metropolitan areas, in this case again illustrated by Baltimore, would be to simultaneously develop a new growth unit at the core of the city——

[Slide.]

A new growth unit by infilling an opportunity area, a gap in the suburban area——

[Slide.]

And to make the first start on a large new town such as Columbia or Reston, in this case at the northern edge of the urbanized area.

As the movement of people begins toward these hopefully better communities on a voluntary basis, and not on a forced relocation basis, it would simultaneously create opportunties to go back into the core and to upgrade an existing dilapidated community—perhaps with better public facilities such as a playground.

[Slide.]

To give some focus to our chaotic and faceless suburbia we could create activities centers or additional downtowns around, for example, a depot station—this slide shows how this happened near Stockholm in the suburbs—and put in the first neighborhood unit of what would ultimately be a large new city adjunct to the metropolitan area.

[Slide.]

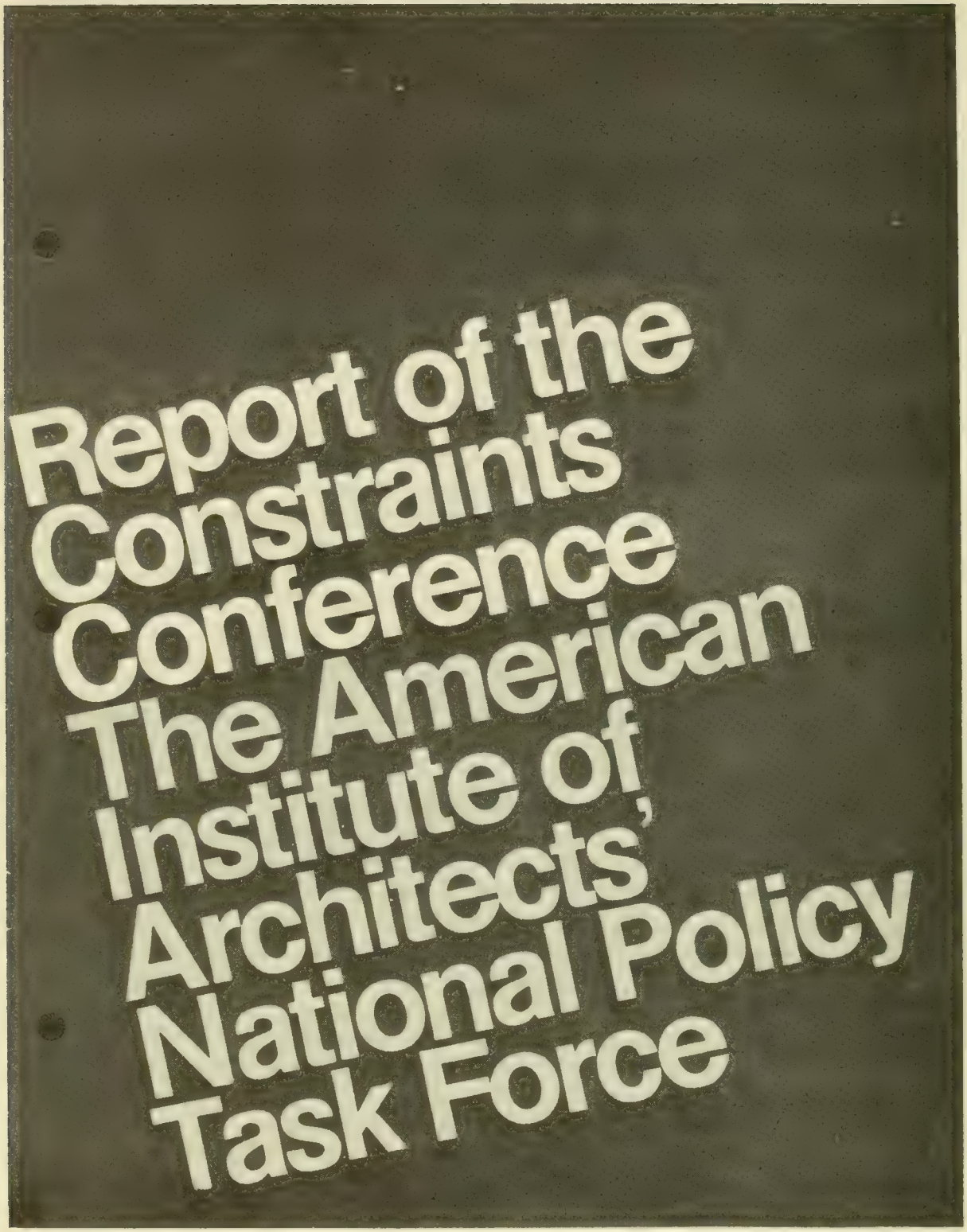
The tool for carrying this out this community development is the public armature. The public armature is the skelton on which all urban form depends. It is the focus of the public investment and is composed of all modes of transportation and pathways, utilities and services. Too often, this public skeleton simply responds in a chaotic and unplanned way to other initiatives, both private and public. Instead, it should be planned deliberately and programed so that the public gets the maximum reward for the dollars invested. First of all we

should create a quality environment, and then perhaps beyond that and recapture the private values created by the public investment.

[Slide.]

Concluding with this slide, Senator Stevenson, we want to indicate to you that the American Institute of Architects is really committed to these recommendations. We have held press seminars and conferences throughout the country. We have also held a special conference at Harvard. I would like the report of this conference also included in the record, the "report of the constraints conference," which was funded by the Ford Foundation.

[The report follows:]


Report of the
Constraints
Conference
The American
Institute of
Architects'
National Policy
Task Force

The Constraints Conference was sponsored by the National Policy Task Force of the American Institute of Architects with the support of the Ford Foundation. This conference report was prepared by Richard C. Leone, Clifford A. Goldman, and Lee Enfield. January 10, 1973.

PREFACE

The first report of the National Policy Task Force of the American Institute of Architects was approved by the AIA Board of Directors December, 1971 and by the annual AIA Convention in Houston May, 1972. The report has become the subject of serious discussion and debate among many with a stake or an interest in urban affairs. The Task Force members have played a leading part in this discussion and have sought to refine and sharpen their recommendations, and to develop plans for the implementation of their report. As a part of this process they conceived of a working conference involving a small but representative group of experts on various aspects of urban policy, development, and economics. The gathering was intended to focus particularly on ways to overcome the constraints relevant to the various national policy proposals. A grant from the Ford Foundation was secured to finance the meeting and the Graduate School of Design at Harvard University agreed to serve as host. The conference was held on October 30, 31, and November 1, 1972.

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SUMMARY OF AIA NATIONAL POLICY TASK FORCE REPORT

SUMMARY OF RECOMMENDATIONS

A. Scale and Form: The building and rebuilding of American communities should be planned and carried out at neighborhood scale (ca. 500-3,000 residential units along with a full range of essential facilities and services) and in a form appropriately called a "Growth Unit."

B. Priorities: The value most to be respected is free choice. First concern should be given the condition of those trapped in the poverty and deterioration of older neighborhoods, especially of the central cities.

C. Changes in the Ground Rules of Community Development:

Free choice should be expanded:

(1) by ensuring open occupancy throughout the entire housing market affected by governmental subsidies and insurance.
(2) by directing needed housing subsidies to people rather than to structures.
(3) by providing locational options, especially by linking development in central and peripheral areas of the metropolis.
(4) by providing for diverse living styles, through Growth Units of varying densities, housing types, and service patterns; and also, through less restrictive building and zoning codes.
(5) by expanding the possibilities and scope of citizen participation in the design and governance of neighborhoods.

Financing patterns should be revised:

(1) Less reliance should be placed on the local property tax.
(2) State and federal governments should assume a greater share of:
a. infrastructure costs, and
b. costs of social services, especially health, education, and welfare.
(3) The appreciating value of land benefited by public investment should be recaptured and recycled into community facilities and services.
(4) Categorical aids should be broadened—especially the Highway Trust Fund which should be expanded into a more general fund in support of community development.

Government structures should be reshaped and adapted:

(1) Private-public ventures should be encouraged.
(2) Public development corporations should be created by federal, state, and local governments.
(3) Metropolitan planning and development agencies should be encouraged.
(4) State governments should participate more directly in planning and regulating the use of land, especially in areas defined as "critical" (e.g., flood plains, coastal regions, areas of acute housing shortages, and areas in the path of rapid development).

Capacity to build at neighborhood scale—both public and private—should be strengthened:

(1) Financial, legal, and other constraints should be reviewed and eased.
a. A steady flow of mortgage money at low and stable rates should be ensured.
b. "Front money" for Growth Unit development should be made available.
c. Public investments in infrastructure should be properly phased and coordinated.
(2) State governments and metropolitan agencies should take a more assertive role in acquiring and preparing land for development—and in building a network of utility corridors to accommodate and give shape to Growth Units.
(3) Tax and other incentives and disincentives should be revised to encourage high quality urban development.
(4) Environmental controls and design standards should be encouraged.
(5) New patterns for the delivery of critical services should be encouraged.
(6) Industrialized building processes should be encouraged.

D. Special Program for Areas Impacted by Rapid Growth and Deterioration:

Priority should be given to the 65 metropolitan areas over 500,000 population.

Within these areas, the public should acquire and prepare one million acres for Growth Unit development.

This development should be explicitly designed to benefit, not detract from, the improvement of the quality of life of those now residing in the older and deteriorating sections.

At average densities of 25 persons per acre, this special program should accommodate one-third of the expected growth of the U.S. population between 1970-2000.

BASIC BELIEFS AND PREMISES

A. A national growth policy is first of all an expression of national values. The values we most cherish are the worth of the individual and his freedom of choice.
B. The goals of national growth policy and the problems it should be concerned with have more to do with quality of life than with numbers.
C. The measuring rod of national growth should be the quality of our neighborhoods. The neighborhoods should be America's Growth Units.
D. By concentrating on the neighborhood, national policy can

relate to growth and regrowth wherever it may occur—in rural areas, in smaller towns and outlying growth centers, in metropolitan areas and their central cities, in free-standing new communities.

E. Whether we like it or not, it is probable that most of America's expected growth from now until the end of the century will occur within existing metropolitan areas. We therefore conclude that American growth policy should concentrate on improving the present and future conditions of our existing metropolitan areas.

F. Within these areas, we believe the first priority should go toward improving the condition of the older core cities, more especially the condition of those trapped in poverty and the squalor of declining neighborhoods.

G. Growth and regrowth—building new communities and restoring old ones—must go together.

H. No national growth policy will work unless there is a broader base for financing the facilities and services that are necessary for more livable communities.

Similarly, an effective national growth policy will require broader perspectives and, in many cases, larger governmental jurisdictions.

J. And while these broader capacities are developing, we also see the need for more citizen control and participation at the neighborhood level.

K. We wonder whether the time has come to consider less affluent standards of housing in favor of higher standards of neighborhood environment, facilities, and services—if indeed the choice must be made.

L. We favor public acquisition and preparation of land in advance of development.

BUILDING AT NEIGHBORHOOD COMMUNITY SCALE: THE "GROWTH UNIT"

The Growth Unit is first of all a concept—a general way of saying that America's growth and renewal should be designed and executed not as individual buildings and projects but as human communities with the full range of physical facilities and human services that ensure an urban life of equality.

The Growth Unit does not have fixed dimensions. Its size in residential terms normally would range from 500 to 3,000 units. This general scale is consistent with likely trends during the 1970s which will encourage the filling in of open land and the renewal of older neighborhoods within existing metropolitan areas—as well as the expansion of outlying communities within the population range of 25,000 to 250,000.

Life-styles, housing types, and residential densities could vary according to local markets and circumstances.

Larger communities—up to and including free-standing new towns—should be built as multiples of these Growth Units—allowing, of course, for an emerging hierarchy of additional services and facilities such as high schools, community colleges, hospitals, regional shopping centers, mass transit, and utility systems.

The neighborhood Growth Unit relates just as much to the rebuilding of America's older cities as it does to new growth on open land. We have learned the hard way that urban renewal and the rehabilitation of older neighborhoods cannot succeed when done piecemeal, house by house, problem by problem. The job is much bigger than that, and the Growth Unit is a more appropriate scale and way of doing it.

The Growth Unit is based firmly on the principle of open occupancy and equal access to facilities and services. Moreover, by linking growth and regrowth both outside the central cities and within them, the nation can find an orderly way out of its segregated living pattern and the haunting tragedy of its older cities.

Finally, the Growth Unit offers a valid measuring point for environmental performance. It can be planned and judged as a "package" rather than a disjointed accumulation of activities, some of which do and some of which do not meet going standards of ecological innocence.

Membership of the Task Force: Archibald C. Rogers, FAIA, Chairman, Ieoh Ming Pei, FAIA, Jaquelin Robertson, AIA, Van B. Bruner Jr., AIA, William L. Slayton, Hon. AIA, Paul N. Ylvisaker.

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THE CONSTRAINTS CONFERENCE

INTRODUCTION

For a long time Americans sought and valued growth. The nation's restless energy seemed to require excesses; to celebrate going all out.

Strangely, for we still are young as nations are measured, all that is changing. Growth and its consequences now are viewed ambivalently by most Americans and with hostility by an increasing minority. Yet the nation continues to grow, albeit at a slowing rate in terms of population. And the nation's leaders, however much they share the general uneasiness, must respond to the problems associated with growth, with its uneven impact and benefits, and with its undesired consequences and costs. Neither the AIA Task Force nor the participants in its constraints conference minimize the difficulties future growth poses for policy makers. They simply refuse to accept the complexity of the problem or its novelty in the American context as compelling reasons for passivity.

There was substantial agreement at the conference that development of a national growth policy should be a priority federal objective. Such a policy obviously would have many components, but as a minimum, it should permit opportunities for small-scale development in the interests of variety, encourage the establishment of new towns, and, most importantly, assert that the major form of development—encompassing perhaps one-third of total growth—should take the form of neighborhood scale (about 500-3,000 units) projects. One of the primary justifications for the emphasis on this last approach is the need to make an impact on the overall character of the area to be developed.*

Indeed, this desire to shape future redevelopment is a prime justification for organizing the conference around the operational concept of the "Growth Unit." The discussion of this concept (outlined below) was intermingled with other, more specific subject matter throughout the conference.

This report of the conference proceedings has three sections: (1) A critique of the Task Force Report; (2) A discussion of the current "ground rules" for development and of the constraints to implementation of the report; and (3) Recommendations for short-term follow-up by the AIA.

*Thus, for example, a "neighborhood scale" project in the Bedford Stuyvesant area of New York City might have to include 5,000 or more units to effect an improved physical environment for residents. A suburban Growth Unit might be much smaller.

CRITIQUE OF THE TASK FORCE REPORT

Clarifying the Growth Unit Concept: Since the conference agreed that a national policy was necessary, the Growth Unit concept was reviewed largely in terms of its efficacy as the central or organizing idea in such a policy. In other words, the conference addressed the question: Does the Growth Unit give us the vehicle we need to implement a sensible national growth policy? The question is a fair one since the Task Force Report identifies the Growth Unit (GU) as its central concept.

The GU concept was criticized on several grounds. Interesting though, the most common negative reaction was not to the concept but to its name. In fact the disapproval of the term "Growth Unit" was so general as to require serious response, rather than dismissal as a quibble. Since public education and political mobilization are critical to the process of implementation of the Task Force Report, consideration must be given to the burden imposed by an unpopular or confusing name. No alternative term, however, satisfied everyone at the conference and the matter eventually was put aside. The Task Force, however, agreed to consider alternatives.

Although the semantic problem was difficult to put to rest, the conference produced more substantive criticisms of the Growth Unit concept. There was considerable debate about the size (or more precisely the range of sizes) selected for the GU. It was the view of several participants that the GU as described in the report was simply too small (at least one participant, however, felt that it was too large). If, for example, the unit was conceived of as a free-standing entity, then it would be unlikely to provide sufficient base for a full range of community services and benefits. If, on the other hand, it was proposed only in terms of linkages with other development in a given metropolitan area, including other GUs as the Task Force members emphasized, then these relationships are not made clear in the report. More importantly, the Task Force approach emphasized comprehensive planning to shape growth in whole metropolitan areas—and to shape it by the development of a mix of GUs.

The general response to this line of argument was that the key elements of the GU concept are not the specific number of dwellings involved, but rather the neighborhood scale, the character of the development, and the effect of the Growth Units on metropolitan development patterns. The GU is an attempt to turn the trend of new growth from sprawl and spread to planned interrelated developments. Seen in this sense, the GU is more than a module for growth (and not a "cookie cutter" pattern to be used in varying locales), but rather an approach to development and redevelopment which builds at a relatively large scale in order to



Jaquelin Robertson, second from right, raises a key issue during a task force meeting at Princeton.

achieve certain goals and realize certain benefits. As the report puts it:

"The Growth Unit does not have fixed dimensions. Its size in residential terms normally would range from 500 to 3,000 units—enough in any case to require an elementary school, day care, community center, convenience shopping, open space, and recreation. Enough, too, to aggregate a market for housing that will encourage the use of new technology and building systems. Also enough to stimulate innovations in building maintenance, health care, cable TV, data processing, security systems, and new methods of waste collection and disposal. Large enough, finally, to realize the economies of unified planning, land purchase and preparation, and the coordinated design of public spaces, facilities, and transportation."*

The conference conceived the essence of the Growth Unit strategy as "opening the opportunities for superior development patterns and designs rather than as a recommendation of a specific physical format of growth." The Growth Unit is adaptable to the requirements of the particular place and region. The Growth Unit strategy is not, however, a means for expediting growth, in the sense that it would brush aside the checks and balances that have stymied undesirable developments. Rather, it substitutes a rational review for the hit-and-miss conflict that sometimes fails to stop undesirable projects and sometimes stops good ones.

According to Task Force members, the Growth Unit concept does not inherently lean to the suburbs or to the city. It applies to both. The form of the Growth Units and their locations will vary; what is essential is to change the ground rules of development to make such development possible.

Task Force members conceded that clarification of the GU term was essential to avoid further variance in its interpretation. Some problems of this type will be inevitable, however, for one of the characteristics of the approach is its flexibility—the desire to employ a concept, namely the GU, which is a useful way of thinking about a major portion of national growth in the next 30 years. Such a concept must be general enough to suggest goals and themes, even if this means that it is not specific enough to support a precise operational definition.

The Growth Unit and the Urban Crisis: Like any term, the GU gathers meaning and connotation largely from the contexts in which it is used. And it is this fact which gave rise to another and perhaps—in terms of time spent—the most important criticism of the report raised at the conference. There was common agreement that the Task Force Report and the GU concept as presented in the AIA document focused predominantly on suburban or peripheral growth. The report accepts that this is where most of the new population will work and live and that, thus, this area is where most of the Growth Units will be built. There is, to be sure, explicit mention of the need to redevelop the central cities:

"The neighborhood Growth Unit applies to all America. But some parts of the nation's society and landscape have been, and will continue to be, especially impacted by growth. We believe a more specific and concentrated response should be made to the problems of the nation's declining central cities and their fast-growing metropolitan areas."

There is likewise emphasis on the need to integrate both racially and economically the GUs built in the suburban rings. Indeed this requisite is one of the justifications for the emphasis on large-scale development—that is, only large-scale developments (and not all of them) offer the possibility of including subsidized housing in outlying areas. Nonetheless, since no one seriously argued that the central cities would be places of substantial growth, the Task Force emphasis on the periphery and thus its small attention to central cities was understandable. At the conference, however, this rationale was considered insufficient to justify a national policy which emphasized the problems of any part of the metropolitan area at the expense of the central city. Underpinning this judgment was the conviction, widely shared among participants, that perhaps the major domestic problems of the country are those associated with race and poverty, and that any national policy must deal directly with ways to reverse the trends that divide and in effect segregate those who are non-white and/or non-affluent.

The achievement of real gains in overcoming this special segregation and economic disparity depends to some extent on finding ways to connect center city residents and poorer Americans (usually the same people in a metropolitan area) to the growth areas for jobs and expanding housing supply. Going with the trends—accepting that growth will take place in the suburbs—is not an acceptable strategy. The conference paper on this subject, prepared by Harold Fleming, in fact defines as a major problem the "conventional wisdom which shapes much of suburban growth and reinforces existing disparities in income and services between the central cities and the surrounding areas."

Any national policy which appears to emphasize suburban development is sure to be greeted with skepticism from minority and poor groups. Several conference participants pointed out that it required a leap of faith to imagine that the Growth Units would not turn out to be predominantly suburban, white, and middle class—not because of the intent of the Task Force but because of American political realities. Any program, they suggested, which actually emerged from the Congress would be unlikely to mandate integrated housing in the suburbs. Carrying this line of argument further, it was argued that the growth policy approach would distract attention, talent, and resources from the central cities—which, while they are not growing, still are the loci of most of our domestic difficulties.

The critics of the Growth Unit also predicted that making more units available in growing areas would draw off higher-income residents from the older housing stock of the central city, which would, in effect, reinforce the "trickle-down theory" whereby once upper- or middle-class housing shifts to the poor. This prospect did at least offer the hope of some expansion in the urban housing stock, but as a total national response to the urban crisis it was considered inadequate.

*See page 4 of the report (green-cover edition) for a more elaborate summary of the Task Force Report's discussion of the Growth Unit.



Task force members discuss the report during a Washington, D.C. meeting in April, 1972.

The conference drew a distinction between racial and economic integration although to some extent the two overlap. Racial integration in Growth Units might be attainable only with affirmative marketing programs which might raise sales costs. Otherwise, the objective of racial integration was seen as having no adverse effect on the economics of development. Racial integration is more likely to result from a greater choice in housing rather than from fixed quotas. It follows that Growth Units in-city would be part of the strategy.

Economic integration may well be the more difficult issue. It could set city and suburb in competition for limited subsidies; it could raise the costs of developing and marketing; it is almost certain to meet political opposition in suburban areas; and it would increase the cost of housing low-income families (since most Growth Units would be composed predominantly of new housing). There was general agreement, however, that economic integration was necessary to correct existing imbalances and housing deficiencies which, by definition and in practical terms, call for lower income housing in the suburbs. And, from the viewpoint of development economics, racial, as opposed to economic, integration was seen to pose no particular problem. There was some question, however, of the desirability of attracting higher income minority families from the central cities and even of the feasibility of doing so. Some conferees feared that empowering the government to expedite suburban GUs in the nature of the case, might worsen the plight of the central city. If the suburban Growth Units are economically integrated, the limited housing subsidies, too small even now for central city needs, would be diverted to suburban GUs. The suburbs, conversely, might fear that they would end up with all of the city's problems.

Yet whether or not, by some grand scheme, it should be doing so, suburban growth has proceeded apace and will continue to do so; jobs are fast moving to suburban areas, and subsidies also are moving to the suburbs. The problem, therefore, is to direct suburban growth and to include within it provision for all classes of society. The constraint to a balanced metropolitan growth strategy identified in this discussion is a shortage of subsidies for public services and housing. The conflict between city and suburb is based mainly on the competition for inadequate levels of subsidy. The number of new units needed to replace substandard dwellings, to accommodate growth, and to offer free choice is too large to be provided either in the city or in the suburbs alone.* These questions were resolved by concluding that the Growth Unit would offer a choice and the freedom to decide where to live so long as development occurred simultaneously in the city and suburb and did not merely drain development resources from the former to the latter.

Since the problem then is more with the practicalities of implementing the report than with its substance, the solution seems to lie in tying suburban development (Growth Units) to parallel development in central cities. It might even be possible, for example, to mandate that any federal aids to GU development be contingent in a given metropolitan area on a particular mix of locations, incomes, and races. In short, the Task Force recommendations need to be more explicit in tying the general approach to shaping growth to specific policies for attacking the problems of the central cities. As one participant put it, "the report must be a better political document."

The Growth Unit and the Environment: Another issue raised by the apparent policy of expediting suburban growth is the environmental impact. The environmental resources of many metropolitan areas are already strained. In the absence of a rational policy of directed growth, environmentalists have taken a position against *any* growth at all. The first victim of such a policy is the large project with government involvement. The Growth Unit policy will have to be reconciled with the environmental requisites of development, even if it cannot be reconciled with the "no growth" wing of the environmental movement.

The conference sought common ground for environmentalists and the Growth Unit advocates. Both would favor broader planning of land use, even if they differed on the content of the plans. The main requirement for the Growth Unit policy is to show that living patterns, including the environmental impact, would be better with it than without it. No matter how well designed, a Growth Unit cannot be more acceptable to the environmentalist than the open land on which it would be built. The answer, of course, as the Task Force Report shows, is that growth is unavoidable and must be accommodated with the least environmental damage. The Growth Unit, in contrast to the extravagant land consumption and highway dependency of suburban sprawl, is an environmental advance.

Each metropolitan area has projections of expected population growth. The expected growth, accommodated in higher density Growth Units rather than expensive subdivisions, and placed along utility corridors of high efficiency rather than spliced with unplanned roads and utilities, can show a savings of open land and other environmental resources. But, to register the potential environmental gains, the land thus saved from development must in fact be set aside. If higher density Growth Units are expedited while sprawling development is permitted on other land, the result will be to increase total population and total development with no offsetting environmental gains. Therefore, the land acquisition program should include the banking of open space land as well as the assembly of land for the development of Growth Units. This does not require that all open land be tied up; the Task Force calls for one million acres of the projected growth to occur in

*With regard to total housing needs, however, the Growth Unit policy can have only a limited impact on patterns of economic separation and on accommodating the needs for subsidized housing in the suburbs. At best, only a percentage of expected growth can be feasibly directed into Growth Units, and only a percentage of each GU can be subsidized.

To illustrate, Bergen County, New Jersey, has 900,000 residents and will have 1.1 million by 1985. If one-third of the 200,000 growth is accommodated in GUs (65,000) and 20 per cent of the GU population is subsidized (13,000), there will not be enough units even to replace substandard housing in the County, which has one of the best housing stocks and highest income mixes in the region. The GU will not do a great deal to bring workers closer to their jobs or to relieve the housing squeeze in nearby Paterson, Hudson County, or New York.

Thus, the GU policy cannot be viewed as a substitute for inner city redevelopment, but as a complement to it. In Bergen County, the GU could ease the housing pressure on middle-income residents, for whom little or no new housing has been built in 10 years. From this, the lower income families might benefit, but only indirectly.

Growth Units, although public acceptance of the approach could lead to even wider application.

The conference clarified the rationale for cooperation between the advocates of directed growth and the advocates of environmental conservation. Any growth policy would be opposed by the extreme "no growth" wing of the environmental movement. But directed growth through Growth Units could be the common ground for environmentalists who face the inevitability of growth and developers who face the uncertainty in any specific case of whether they can proceed. Directed growth can save environmental resources by improved planning and by less extravagant consumption of land. As an alternative to suburban sprawl, the Growth Unit is an environmental advantage, especially if the land saving that is made possible is actually registered by public acquisition.

One of the missions for the AIA, then, is to make clear that it is not advocating a specific level of growth, or even in favor of growth in general. For regardless of the individual attitudes of Task Force members, it is not necessary to the substance of their arguments that one have any particular opinion about the amount of growth which is desirable. The Task Force is responding to predictions of growth levels from other sources. Indeed given the need for redevelopment, the thrust of the recommendations would be valid even if there were no growth. As a nation, after all, we ought to seek to improve the existing physical environment as well as prepare for the future. Its members share the concerns of many Americans regarding the unwanted consequences of previous growth. They seek ways to minimize the social, economic, and environmental costs of future growth, whatever its level. The Task Force proposals are more than a defensive reaction—they push at the limits of current development practices and public policy. Future growth seen in this sense offers an opportunity to improve the nation.

Clifford Goldman pointed out that most policies to limit growth actually result in spreading it. And such policies usually are disproportionately successful in diminishing development of low-income housing, thus increasing the exclusivity of new development.

These early criticisms of the report set a tone for the entire conference. Participants frequently returned to the basic question, "What is the impact of the Growth Unit concept on the central city and on the environment?" By the close of the sessions, there seemed to be a consensus that the Task Force recommendations could and would be tied more closely to strategies for meeting the problems of metropolitan disparities in services, economic segregation, low-cost housing needs, and environmental concerns.

CHANGING THE GROUND RULES: OVERCOMING CONSTRAINTS

Economic Constraints: Conferees discussed at length whether, as suggested by Anthony Downs's paper, the GU would add to the costs of development. He argued that more time is needed to assemble extensive parcels of land and that larger staff and planning inputs per unit built are also necessary. If development costs are higher, then the subsidies needed for economic integration of the GUs also would have to be higher. The history of urban renewal shows that Growth Unit size developments in the cities are more expensive and more time consuming to plan and process. From the viewpoint of the developer, however, higher costs might be more than offset by higher sales prices and faster sales schedules, especially if his well-designed GU was competing only with traditional forms of development.

A further counter argument is that the development team, once accustomed to thinking and working at larger scales, would develop expeditious formats for planning large developments just as it now has for traditional subdivisions. The preparatory steps to a large development would become transferable from one development to another. This process of skill and "know-how" formation was offered as an important byproduct of the GU policy.

Conferees distinguished between planning costs and processing costs, the latter including the costs of securing multiple consents and commitments prerequisite to the development. They agreed that the planning costs were rather unimportant in the total development cost. And they suggested that the planning costs could be reduced with experience. Moreover, the architects argued strongly that given the opportunity to plan on a larger scale they could lower the development costs through superior design.

The principal burdens on development were perceived as the delays and costs of processing rather than the costs of planning. In development economics, time translates into money. Bernard Weissbourd felt that it would be less expensive on the whole to plan and process one large development of, say, 500 acres than 10 traditional developments of 50 acres, primarily because of the time involved in securing separate consents and commitments, possibly from several governmental jurisdictions.

Large-scale development sometimes is subjected to more delay than small developments because of the opposition of environmentalists. If government decisions are required, the opposition has opportunities at several points in the process to hold up and even block it. One opinion expressed at the conference was that these opportunities are desirable for society, because ill-conceived projects will be stopped. In any case, the costs of development will be higher and so will the risks of losing front-end monies in an unsuccessful project. The Growth Units will attract opposition, as noted above, not because they are inherently more damaging to the environment than the aggregation of traditional smaller developments. Indeed, in opposition to suburban sprawl, Growth Units are environmentally superior. They will attract environmental opposition primarily because they are larger and thus present a better target.

The social components of the Growth Unit would raise costs. As Anthony Downs points out:

"More negotiation with various local government and community



Archibald C. Rogers, FAIA, presents testimony in Washington, D.C.

agencies is required since the GU includes not only residential property but also a school, day care center, recreational land, etc. Economically integrated developments require federal subsidies, which involves more red tape and longer pre-construction periods than non-subsidized housing. Economically integrated developments also require more intensive marketing programs than those containing no low- and moderate-income housing. Such programs take longer to carry out, and may require longer absorption periods than developments containing no subsidized units."

Another issue which impinges on development costs, and which has political overtones, is the effect of the Growth Unit policy on small builders. The homebuilders at the conference argued that the small builder is more efficient and less likely to fail than the builder of large projects. They were dubious of efforts to broaden the small builder or to agglomerate him; large enterprises and large undertakings, they argued, are inherently more prone to looser administration, lesser flexibility of operation, and risk. At the least, the Growth Unit, divided by the large developer among small builders would involve an extra round of negotiations and supervision and thereby added costs.

Thus far, the discussion of Growth Unit economics has centered, in the abstract, on the development of a single Growth Unit; more difficult issues are raised in the discussion of channeling a substantial portion of growth into a number of Growth Units. The costs of large-scale development, if they are in fact higher per unit, are not so high as to make Growth Units totally infeasible. "After all," as Downs points out, "a great many residential developments are already being built on sites of more than 200 acres, with more than a minimum of 500 units, and a mixture of the types of amenities called for by the definition of a GU. Each of these developments also has a single comprehensive plan."

But the GU *policy* also implies increased costs through raising the standard of housing and living environment and the addition of amenities as standard rather than special optional features of housing development. These costs may be "real" economic constraints. As Downs says:

"On the one hand, by raising housing costs they [GUs] shift society to the left *along* the demand curve to a point of higher average unit cost and fewer units consumed for any given level of total income in society. On the other hand, by making housing more attractive than it was in the past, GUs might increase the total demand for housing relative to other goods and services—thereby shifting the *entire demand curve* to the right. It is impossible to determine *a priori* which of these two conflicting impacts of GUs would dominate, since we know little about the shapes of housing demand and supply curves, and even less about how GUs would affect them."

In other words, the GU policy would set architects and designers competing for excellence and their abilities would determine whether the excellence could be attained within cost limits that would enable more people to live in better environments. Thus, a key variable rests with the architects.

The architects were anxious for the opportunity and confident of their ability to apply their skills in this competition for excellence. As Task Force Chairman Archibald Rogers stated in opening the conference, the motivation of the architects in committing their energies to the principles of the report was the chance for the creative satisfaction of just such an assignment, as well as a desire to support general reforms in urban development.*

Experience with larger, mixed developments thus seems to demonstrate the basic economic practicality of GUs, but it raises the question of why a wholly new policy of GUs is needed. Why not simply support the planned unit developments already taking place?

The discussion of this question focused attention on the difference between building some large developments and instituting a national policy based on GUs. In this discussion, formidable constraints surfaced and strong measures to overcome them were proposed.

The most common problems with large-scale developments are that they are "too few and far between," that they are located by hit-and-miss circumstances instead of by design, and that they fail to provide for economic integration. The government actions that were suggested to expedite the building of individual GUs become essential prerequisites for a policy to direct metropolitan growth. One such governmental action is the acquisition and assembly of land. Government acquisition would lower the cost to the developer of the time-consuming assembly process and, in the context of metropolitan development, would open the possibility for GUs where they are needed and where they would otherwise be impossible to build. In fact, comparisons of the economics of units built in traditional forms with units built in a GU may be misleading. For without easing the way for GUs, there may be no basis for comparison because there may be no chance to build the required number of units in the face of locally imposed development obstacles.

If, on the other hand, planned GUs are fostered as the means to provide for a large proportion of expected growth, the competitive advantages that large-scale developers now enjoy would be diluted. In the past, the higher costs of large developments have been more than offset in some cases by the outstanding environment created by comprehensive planning on a large site. This advantage, in turn, increases the relative market appeal of the development, raises its share of the existing market, and reduces the development time required. The developer thus is compensated for his higher initial costs. But, as Downs points out, "If the use of Growth Units became very widespread, it would be impossible for each developer using a GU to enjoy a relative advantage over most other developers."

Some of the conferees were skeptical of the ability of the government to judge the right locations for viable developments, but it is also clear that desirable locations are foregone because the developer, on his own, cannot get possession and clearance to use them. By acquiring land and clearing away locally imposed

*The reliance on property taxes, for example, which underlies the resistance to housing has to be eased. The architects can recognize the truth of this assertion without offering a detailed plan for accomplishing it, although workable plans for tax reform have been prepared in various jurisdictions.

obstacles to growth, the government would be creating a development opportunity and enhancing land values. At the same time, the government would shoulder the costs that would normally be borne by the developer in gaining clearances. By the time the developer acts, much of the preliminary work would be done. In return for creating development opportunities and values and for assuming the costs of land acquisition and development clearances, the government could be compensated from the increased land values it creates. The compensation could come from the higher land price charged to the developer or in the form of added costs required of the developer, such as for the inclusion of public facilities. In development economics, there are traditionally accepted rewards for the functions here assigned to the government. By placing the rewards in this traditional context, the controversial issue of taxing the unearned incremental land values is side-stepped, but the desired end still is attained.

This role, and others, for governments are discussed below.

Public Actions to Reduce Costs and Shape Development: Throughout the conference, federal action to change the ground rules of development was described as a prerequisite for necessary state and local changes. A national land use policy, for example, could require wider planning at the state and metropolitan levels. And, even though many of the elements of public infrastructure required for new development—water, sewer, schools, roads, etc.—are not direct federal responsibilities, national programming can and does affect such programs. The intent of the Task Force is not the creation of a policy which forces migration to certain areas. Yet, a policy which involves governmental decisions in advance of development about where to support infrastructure is clearly a powerful tool in shaping growth. William Slayton stressed that local governments routinely make decisions of this kind when they, for example, decide where to extend the water lines (often with federal subsidy). And while infrastructure is not the key everywhere (in the cities, for example, Ralph Taylor pointed out that other services are crucial), highways and other public physical facilities frequently provide the underpinning for development in the most rapidly growing areas of the metropolis.

One difficulty in dealing with the infrastructure problem is that, as Nat Rogg indicated, it is an unresolved question as to whether the American system of public decision-making (and given political realities) can install advance infrastructure on a rational basis. Are we better off allowing economic forces, that is the private sector, to do so, hopefully in a way which will minimize real costs? Harold Finger suggested one aspect of the answer when he noted that according to the design and testing group in the Office of Research and Technology of HUD, the construction of integrated utility systems could result in a savings of $2.7 billion annually—a strong argument that utility systems ought to receive more national attention. If this approach makes sense, then such elements of public infrastructure should be in tune with development phasing. This conclusion in turn implies that there should be a national land use policy which is coordinated with infrastructure development. But how could such development be funded? Participants discussed several methods. Direct federal grants in the form of community development funds have been suggested as a source in AIA testimony before the Congress. As noted, the Task Force Report proposes capturing for public use the "unearned increment" in land value brought about through public investment. The discussion of this possible source raised two potential difficulties: the funds available from the sources suggested may not be large enough, and the effect of some recommendations might be to discourage entrepreneurial activity. Most conferees agreed that this area, and two others—alterations in the property tax to direct receipts into land improvements and corporate-issued, federally guaranteed, taxable bonds—needed more study.

Other questions not fully resolved at the conference included how to deal with the fact that the flow of credit at the needed levels would pose a constraint to the widespread implementation of the strategy. Other groups, more experienced in such matters, such as the homebuilders, could be consulted about this potential problem.

Another important issue which was not settled by discussion was whether in fact the Growth Unit could be built with the standards of excellence and amenities within reasonable cost limitations or whether Growth Units could be built at high standards only by making their units more expensive and thereby more exclusive. One of the presumed potential benefits of widespread development at larger scale is that the professions would become skilled in such developments and able to handle them with increasing proficiency. But, in the meantime, the best way to find out what results can be achieved would be to build Growth Units of varied types on a demonstration basis and in a design competition.

These plans, however, will not be easy to implement without a public commitment to the GU idea.

The Need for Public Innovation: The participants generally, and especially those in the government workshop, stressed the necessity of having a fortunate conjunction of political forces in order to achieve substantial changes in the ground rules for development. Edward Logue, President of the New York State Urban Development Corporation (NYSUDC), described in some detail the circumstances of that agency's birth. Other participants added evidence that unusual leadership in both executive and legislative branches is required to create powerful special purpose agencies, e.g., NYSUDC, or change traditional allocations of power among levels of government, e.g., state override of local zoning ordinances. Even after there is movement in the form of legislation and/or executive action, according to most participants, extraordinary entrepreneurial skills, both public and private, are necessary to pass through the thicket of obstacles in the path of planned and integrated neighborhood-scale development—either in the urban core or on the periphery. The necessity for special conditions and unusual talents to overcome constraints to neighborhood-scale development has troubling implications. For this prog-



Jaquelin Robertson, far right, raises a point with task force members Archibald C. Rogers, FAIA, Van B. Bruner Jr., and William L. Slayton, Hon. AIA, at House testimony.

nosis suggests that there is little likelihood of such an approach to growth becoming routine in the near future. Paul Ylvisaker argued that those convinced of the wisdom of the Task Force approach or even persuaded only that current development patterns must be altered, should find in this pessimistic assessment a stimulus to action, rather than excuse for cynicism. Action to solve these problems requires national leadership and national policy. Strategy initiatives at this level might encourage, stimulate, or even mandate specific initiatives at the state and local levels.

Many participants were convinced that the key to encouraging GU construction will be incentives which make it profitable and easy for private developers to adopt this scale of development. As William Wheaton puts it in his paper on governmental constraints:

"It seems that most of the development units built in the next few years will be privately built rather than publicly. In 1964, Ned Eichler suggested that public enterprise was unlikely to be able to build new towns more efficiently than private business. No one has even attempted to refute that judgment. Although there is a precedent in the history of American government for agencies with initiative and drive, even on multiple purpose programs those examples are rare indeed."

The discussion led by Anthony Downs, described above, covered many topics which are relevant here. The key, again, to the problem—and this holds true for private and public developers—is assembling and processing the land for development. Unless these operations can be simplified to cut time and cost, and modified to reward large-scale, socially progressive, and ecologically "innocent" projects, widespread adoption of the GU concept will not occur. As one participant noted, "That, my friend, is a tall order."

Yet many of the innovations discussed at the conference are being tested by various state and local governments.* The variety of these experiments is impressive evidence that state and local governments, under the right conditions, can play a vital role in moving public policy in this area. The lesson of this creativity is that any national policy must allow considerable local flexibility.

Because many of the perceived constraints, even for private developers, are in the public sector, most of the relatively specific suggestions for changes in the ground rules emerged from the discussions of the government workshop. Any implementation of the GU concept, for example, implies a more comprehensive level of metropolitan planning than is now ordinarily the case. Incentives for such development likewise require public action, at the federal, state, county, and/or municipal levels. Not surprisingly, the need for a specific public instrumentality to encourage or implement the GU strategy was a focal point of the government workshop's discussion—a discussion influenced substantially by the character and experiences of NYSUDC.

This state agency has an impressive array of powers, including the right to override local zoning. Participants were familiar with the recent difficulties of UDC in attempting to exercise those powers to construct relatively modest quantities of subsidized housing in Westchester County, New York. This case was considered especially significant in view of the consensus that many GUs must include subsidized housing but that projects which contain *all* subsidized housing are counter productive, since they isolate the poor and increase economic segregation. (The UDC, for example, uses a 70-20-10 percentage formula in its projects—70 per cent working middle class, 20 per cent poor, and 10 per cent elderly. The mix is based on a judgment about feasibility and community character rather than on an extrapolation of housing needs.) Edward Logue contended that the Westchester case had been misinterpreted as a sign of the limits of the possibiliti in this field. He noted that successful integrated development, particularly by a public agency, required a certain confluence of favorable factors, including courageous political leadership, support from industry, thoughtful treatment by local media, and extreme flexibility in dealing with the day-to-day aspects of the problem. In Amherst and Rochester, New York, Logue contended that these factors, in combination with other unique local characteristics, had made development possible on a much larger scale than had ever been contemplated for Westchester. In Monroe County (Rochester), with a population of less than 700,000, for example, UDC has local approvals from individual towns to construct a total of about 15,000 units.

The discussion of the New York State experience highlighted the need for statewide political leadership which is committed to organizing growth around integrated communities. Participants agreed that the one promising factor—in terms of building a political constituency—was the increasing commonality of interest among large numbers of families who cannot afford new housing at market rates. Their numbers are such that there is great potential for political support for more subsidized housing. Against this possible coalition, however, is the deeply held belief, on the part of many Americans, that where people live is a matter of personal preference, not something to be dictated by public policy. Like so many discussions of urban policy, the participants came back to "the creation of options" as the only acceptable public rationale for mixing incomes in new developments.

The imposing obstacles to neighborhood-scale projects which include different income levels are the primary reasons for the emphasis on the need for a public agency. Incentives for the private sector, to be sure, are essential if there are to be numerous adoptions of the GU concept of development. But before one can expect sweeping changes in the investment decisions of the builders, public agencies probably will have to set precedents and enhance feasibility. The federal government could encourage the creation of such agencies by providing support and guaran-

*In Montgomery County, Maryland, a charter revision proposes, for example, that all new projects be required to include at least 15 per cent low-income housing. If a developer exceeds this minimum, he is given a bonus in the form of an increase in the allowable densities. Fairfax County, Virginia, has a smaller mandated minimum, through use of the zoning power. The Dayton, Ohio, area is experimenting with a "fair share" formula for distribution of low-income housing among communities. Powerful public agencies like New York State's Urban Development Corporation and New Jersey's Hackensack Meadowlands Commission also have a mandate to mix housing costs. A private developer, the Hartford Process, is attempting to incorporate similar social goals in its projects.

tees for state or regional bodies which set out to construct neighborhood-scale projects.

Mel Mister argued that, to be successful, such agencies would need federal guarantees of loans, the ability to build other than public housing, and the ability to operate without regard to inner city blight requirements. He contended further that private developers, subject to proper public review, could be given similar powers in order to stimulate inner city development. Without these authorities, he pointed out, development will continue to follow the path of least risk—to go with the trends, rather than to shape new ones. "We do not have the luxury of waiting until, in the natural course of events, there is a sufficient drop in the value of land in the city to encourage private developers to move in." Finally, public support, direct or indirect, for such developments must be paralleled by an increase in the level and quality of public services available to residents. In the suburbs, this implies movement away from the local property tax in order to eliminate the disincentive of higher service costs implied by higher densities and lower incomes. In the cities, it means that such key services as schools and security must be perceived as good enough to reinforce the appeal of new housing.

The emphasis of these discussions, then, was on giving government new powers, or, more precisely, reallocating and regrouping public powers in order to encourage neighborhood-scale development. (Mister went so far as to suggest that governments become the general developers of last resort.) Fred Hayes pointed out the extent to which this conclusion reflected a lack of confidence in existing public institutions, as well as the need to counter the current private economic forces in metropolitan areas. The key public functions obviously involved land assemblage, or "pass through," to prepare land (zoning changes, etc.) for GU development. The representatives of the building industry present at the conference thought that private interests would support such an extension of governmental activity if, in fact, it provided a path through the existing maze of negotiations and consents which confronts developers.

At the close of the day-long government workshop (and almost simultaneously but independently in the economics workshop), the group, led by Congressman Thomas Ashley, examined existing federal legislation designed to stimulate well-planned development. Several participants proposed an addition to the Title VII legislation which now provides incentives for new town development. They felt that an extension of this favorable treatment to neighborhood-scale projects would be desirable and would enhance prospects for the GU concept. In a related development, Harold Finger's systems and technology workshop proposed that the federal government support experiments at GU scale, as a mechanism for testing practicality and building support for the idea.

The final plenary session of the conference focused on ways to build public, professional, and ultimately political support for the concept of shaping growth through neighborhood-scale development. These deliberations provided the substance for the immediate, post-conference agenda of the Task Force.

Thus, the conference was a step towards further AIA activity. Some important issues were clarified, providing a stronger rationale for potential allies and, incidentally, helping to establish lines of communication for follow-up cooperation with such groups. Secondly, the meeting pointed the way toward provisions which now can be written in legislative form. And finally, it established the basis for further research and for the pilot development of Growth Units.

SHORT-TERM FOLLOW-UP

The Task Force met immediately following the close of the conference. The desire to accelerate and broaden the process of constituency and coalition building was at the top of its agenda. As an essential part of this process members felt that potential allies in the effort to achieve a national growth policy should be involved in the revision of the AIA's own version of that policy. In other words, the Task Force committed itself to involve non-architectural groups in a thorough review and reworking of its report in the light of the conference critique. While the Task Force, of course, will retain ultimate responsibility for the substance of the document, the need to gain outside support and special competence outweighs any cumbersomeness caused by additional participation. William Slayton noted that action and "hard" proposals were the goal of the conference and to obtain either the AIA needed strong and committed allies. Van Bruner stressed that a key component of the revision process must be to satisfy the real concerns of many participants about the report's apparent focus on suburban development as against central city problems.

The plans to work with other groups also imply an intensification of existing relationships with a number of urban and metropolitan associations. AIA staff member Michael Barker has been cooperating with these groups in preparation of legislative proposals which embody aspects of the Task Force recommendations.

Some conference participants felt, for example, that the Growth Unit concept was sharpened to the point that legislation could be drafted which would embody the principles of the strategy. The legislation would include federal subsidies to a lower level governmental unit for land acquisition, both for land development and land preservation. The governmental arrangements should be left flexible, but, whichever level of government is selected, it should have the power to choose the size and location of Growth Units and their mix between city and periphery. It should be empowered to clear the way for expeditious development once selected sites have passed a thorough review. The actual development would be left to private entrepreneurs, but the government agency, as discussed above, would be compensated for the functions it performs out of the values it creates.

Individual participants in the conference also plan further involvement. Harold Finger's suggestion of a research and demon-

stration program related to the Growth Unit concept, for example, was made a high priority.

Task Force members also agreed to select a number of components of their report for additional study and analysis. The non-architects at the conference urged that the Task Force concentrate on those issues that were clearly in the realm of the architectural profession, and on the key issue of the ability of the profession to produce a superior environment within realistic cost limitations. The report's authors, however, are not prepared to limit sharply the scope of the report. They reiterated their responsibility to attempt to configure a policy and institutional environment which would be congenial to Growth Unit scale development. They recognize that this breadth led to some recommendations described only at a high level of generality. The criticism of a lack of supporting data and rationale was accepted. But few questioned that implementing these proposals would aid in neighborhood-scale development. They simply noted that many of them were controversial and far-reaching, thus needing thorough substantive backing. The Task Force will attempt to provide this supporting evidence.

Summary of Next Steps:

(1) Produce a revised statement of the GU strategy incorporating the refinements made at the conference.

(2) Choose a better term than Growth Unit to describe the main idea of the strategy.

(3) Separate those recommendations which can be elaborated by architects and those which call for consultation with other groups.

(4) A series of working sessions with other groups, such as the homebuilders, both to improve sections of the report and to enlarge the base of support for the policy.

(5) Development of a research and demonstration program for discussion with HUD, including:

a. The preparation of a plan for accommodating growth through Growth Units in a specific metropolitan area(s) to show the impact on urban-suburban patterns and the environment;

b. A design contest for the design of particular GUs of varying sizes and locales, with particular attention to cost control;

c. Drafting of model federal and state legislation for the implementation of GU policy;

d. Actual construction of a sample GU.

(6) A program of public education through meetings of local AIA chapters and mass media using materials prepared by the Institute.

CONCLUSION

The conferees, despite their varied backgrounds, shared a common starting point for discussion. They agreed that a national growth policy was both desirable and possible. In this sense, the principal constraint identified at the conference was the "absence" of federal policy development of and commitment to a growth strategy. The conferees stressed the need for leadership on this issue from the highest levels of government. Without such leadership, discussion of many aspects of the growth policy inevitably is speculative and relatively general.

Implementation of the report of the National Policy Task Force or of any similar statement about national growth, for example, obviously requires major changes in public and private development practices (and perhaps most importantly, in public attitudes). These changes are necessary not so much because the Growth Unit (neighborhood scale) concept is revolutionary—it is not—but because widespread adoption of such a concept implies elimination of many existing impediments to large-scale development and the creation of new incentives for such development. More generally, there are few precedents for the sort of comprehensive approach to future growth or redevelopment outlined in the Task Force Report. In the past, growth and its consequences have always been accommodated within the framework of existing institutions and practices, through a process of incremental adaptation. Most conference participants feel, however, that we need to experiment with new approaches to problems of the scale and complexity of those posed by modern America.

Viewed in this intellectual context, the Task Force Report is yet another attempt to alter the way we think about and cope with the future. In a sense, it is also a reaction to the overwhelming evidence that current land use and development policies are inadequate.

The conference than asked two related questions: 1) Is the Growth Unit approach sound and feasible? and 2) if so, (or as modified) can the obstacles to its implementation be overcome?

Despite criticisms of the Growth Unit concept, the overwhelming majority of participants found it a useful way to think about and organize future development. In other words, modifications of the Task Force Report which satisfy most of the objections raised at the conference are achievable without doing violence to the basic approach. This is a conclusion that is especially significant given the very wide variety of perspectives and interests represented at the conference.

Any conclusions on the question of implementation must be more cautious. Solid proposals for study and action were put forward, including a strong emphasis on the need for both new public instrumentalities and new mechanisms to facilitate private land assembly. Other suggestions must be viewed as more tentative and even theoretical, some simply recognize the desirability of certain altered circumstances for development, such as a steady flow of mortgage money and a broader coalition of support for subsidized housing.

The experience of most participants, as related at the conference, indicated just how formidable are the constraints to neighborhood-scale development. Although the Task Force finds itself with a rather full agenda of immediate projects, its membership recognizes that this is a very early stage in the effort to alter the pattern of growth in the nation. In this sense, then, the conference must be viewed as part of the beginning rather than a final formulation of solutions to our problems. Much research, analysis, and argument lies ahead. A major commitment to public education



Van B. Bruner Jr., William L. Slayton, Hon. AIA, Jaquelin Robertson, and Archibald C. Rogers, FAIA, after presenting National Policy Task Force testimony before the House Banking and Currency subcommittee on housing in June, 1972.

and constituency building is essential. So are powerful and convinced allies. And there can be no substitute for eventual leadership on these questions from the highest levels of government.

The conference, in a sense, was a test of whether or not the AIA should continue this approach to the problems of growth in an urban society. The clear answer from the conference is "yes" —not because the constraints conference found ways to eliminate the constraints to neighborhood-scale development; with few exceptions, it did not. The answer is "yes" because the conference confirmed that the ideas in the Task Force Report are important and worthy of public debate. Paul Ylvisaker said it best, perhaps, when he called on participants to overcome the deep cynicism acquired in the 60s and to open their minds to the possibilities of a new decade and a new approach to urban problems.

APPENDICES

CONFERENCE PARTICIPANTS

Thomas L. Ashley
Richard F. Babcock
Michael B. Barker
Seymour Baskin
Norman Beckman
Van B. Bruner Jr.
Anthony Downs
Marian Wright Edelman
Gordon Edwards
Harold B. Finger
Harold Fleming
Herbert M. Franklin
Charles E. Fraser
Clifford Goldman
W. Wilson Goode
Frederick O'R. Hayes
Maurice Kilbridge
Arthur T. Kornblut
Richard C. Leone
Peter Libassi
Edward J. Logue
Louis R. Lundgren
M. Carter McFarland
Floyd B. McKissick
Melvin A. Mister
Robert Nash
Raymond D. Nasher
Grace Olivarez
Nathaniel A. Owings
Ieoh Ming Pei
William K. Reilly
Jaquelin T. Robertson
Jack Robin
Archibald Rogers
Nathaniel Rogg
Thomas Seessell
William L. Slayton
Stanley Surrey
H. Ralph Taylor
Dempsey J. Travis
Max O. Urbahn
Stanley Waranch
Bernard Weissbourd
Louis Winnick
Robert C. Wood
Paul N. Ylvisaker
Hugh M. Zimmers

"THE FOLKLORE OF SOCIAL CONSTRAINTS ON URBAN GROWTH POLICY"—SUMMARY

Harold C. Fleming
President
Potomac Institute Inc.

"The Task Force Report starts from the sound premise that 'a national growth policy is first of all an expression of national values.' It would seem to follow that the present pattern of growth —however haphazard and incoherent—is itself an expression of national values. Many of the values so expressed are strongly antagonistic of the strategy proposed by the Task Force. When we speak of 'social constraints' in this context, therefore, we mean those values—embodied in popular attitudes and assumptions—that undergird present patterns of physical sprawl and social stratification."

A. Social Constraints: The success or failure of the Task Force proposals will depend upon how effectively we are able to bypass or override constraining attitudes by appeals to more congenial values. Assuming as the Task Force Report does that we can accomplish this favorable shift in the balance of social values, the key question for AIA, then, is how to proceed.

The social constraints which must be confronted may be lumped into the following five broad categories:

(1) *The Cult of Homogeneity* "American folklore holds that homogeneity is squarely in the national tradition and is an essential condition of neighborhood stability." Yet our present growth pattern, by which we are becoming increasingly segregated, racially and economically, reflects not so much a desire for homogeneity but rather fear—fear of the "changing neighborhood" where property values decline as soon as racial and economic integration sets in, and fear of inundation by the problems associated with the poor.

(2) *The Work Ethic* "In the context of urban growth, the (work ethic) argument is that residents of the most affluent suburbs have earned the right to be there and are therefore justified in defending their life-style against what they see as encroachments." The reality is, of course, that housing subsidies are not presently limited to the poor. However, such government assistance as VA and FHA guarantees and tax deductability of mortgage interest and property taxes is not perceived as government "handouts," as is public housing. The Task Force proposal for housing allowances directly to persons rather than to buildings will not remove the basic problem posed by the work ethic, though it may make the public subsidy less conspicuous.

(3) *Private Enterprise as the Government of First Resort* "The appeal to the sanctity of free enterprise is a powerful deterrent to a planned and balanced urban growth policy . . . Ironically, no sector of the economy is more dependent than housing and development on the subsidies and facilitations of government."

(4) *Government Best by Governing Least* Suspicion of the federal government is as old as the country. The problem in confronting this particular attitude is twofold: (a) If we are to approach anything resembling a national growth policy, it clearly will be necessary for local land-use decisions to be reviewed at higher levels; and (b) Decentralization in and of itself is not bad. The problem lies in the way in which such decentralized authority has been used in the past. The Supreme Court of Pennsylvania recently invalidated a "no growth" regulation in a community on the grounds that this regulation involved a decision affecting other communities in the area and as such was not a decision which one community alone should make. "Meanwhile, federal policy continues to insist that the local jurisdiction is the unchallengeable decision maker in its own domain . . ."

(5) *Race* "No catalogue of social constraints can fail to register the durability of racial prejudice and discrimination. Residence, more than any other aspect of life in the United States, is adversely affected by racial attitudes." The problem has been complicated in recent years by the blurring of class and race distinctions which make racial motives less identifiable.

B. Countervailing Values: In opposition to the above social constraints, there is a tradition in the United States of humane and egalitarian values which are responsive to leadership that can link the public interest with self-interest: a growing national commitment to racial equality, a long tradition of support for the underdog and for a classless, upwardly mobile society, and a growing disenchantment with unregulated free enterprise. In summary, "the deeply rooted values and attitudes that we have called social constraints are neither immutably nor consistently held; in any given situation, they may be attenuated, modified, or completely overridden by conflicting values and attitudes . . . Attempts to influence attitudes are usually thought of in terms of moral preachments or rational argument. Yet these techniques, in and of themselves, have notoriously little effect on attitudes and even less on behavior . . . unless the attitudes invoked are associated with a goal that is seen as desirable, or at any rate necessary. In other words, perceived self-interest (in the broadest sense) largely determines which set of contending values will predominate in a given situation."

C. Toward a Growth Strategy: The proposals set forth by the Task Force will be doomed to failure without the careful cultivation of a constituency which is assembled on the basis of the convergence of values and interests of different sectors of the society. One such possible constituency, foreseeable in the future, is the improbable alliance between developers and environmentalists, both of whom have a stake in an orderly growth plan. Another possible element of this constituency can be found among the proliferating public interest groups representing a citizenry growingly discontent with government as usual.

Study by the Potomac Institute some years ago of "apparently stable integrated housing developments" found that white residents located in such housing not because of liberal attitudes, but because attractions such as price, design, and quality outweighed racially related reservations. Such findings are not definitive. They do indicate, however, that there is hope for the basic Task Force assumption that social constraints are not totally impassable.

"ECONOMIC CONSTRAINTS AGAINST WIDESPREAD ACCEPTANCE AND USE OF THE 'GROWTH UNIT' CONCEPT" —SUMMARY

Anthony Downs
Senior Vice President
Real Estate Research Corporation, Chicago

The purpose of this paper is to explore the economic constraints likely to inhibit widespread acceptance of the growth unit in the near future, and possible means to overcome them. The paper concentrates upon those portions of the overall urban development process involving the creation of new structures and neighborhoods at the outer edges of metro areas, but ignores their eventual "trickling down" into slum conditions.

A. How the Growth Unit Differs from Prevailing Development Practices: The growth unit differs from most present residential development in three basic ways:

(1) The size of parcel developed under single ownership or coordinated control would be considerably enlarged.

(2) As a result, comprehensive planning of land uses would extend over larger parcels than at present.

(3) Each growth unit would contain a broad spectrum of income

groups, including at least some low- and moderate-income households.

B. Costs of GU Adoption to Urban Development Process: One of the major constraints to acceptance of the above type of development would be the additional real social costs to the urban development process. These costs can be laid to two principal factors: an increase in development time of the growth unit over presently normal development, and an increase in staff and planning input per growth unit built. There is no way to avoid these costs and still achieve the benefits of growth units. Hopefully, however, they would result in higher quality urban development than presently prevailing methods, and the net benefits would be positive.

Though it is not possible to estimate the size of these costs, it is clear that they will cause a significant rise in the risk of development at the GU scale. It may be difficult for developers to recoup these costs through higher housing prices, unless they can limit the area impacted by these benefits to the GU itself and control access to the GU. When there are very few GUs in a metro area, the greater market attraction of the GUs may speed up overall development which will compensate the developer for his higher initial costs. On the other hand, if the use of GUs became widespread, the developer of the GU would not enjoy this relative advantage over other developers. Thus, adoption of the GU concept may have two opposite impacts: (1) higher average unit cost and therefore fewer units consumed for any given level of total income in society; and (2) greater attractiveness of housing than in the past, and thus an increased total demand for housing relative to other goods and services. It is impossible to determine at this point which of these two impacts would dominate.

A second major constraint on widespread adoption of the GU concept would be the redistributional impacts relevant to the development process. These impacts, while they would not result in any clear-cut net gain or loss to society as a whole, would be perceived as higher costs for some "actors" in the development process and as lower costs by others. They include:

(1) Market value of relatively small parcels of land would be reduced as compared to relatively large parcels.

(2) Shifting most development to GUs would benefit large-scale developers at the expense of small-scale ones.

(3) Insofar as the use of GUs was associated with a greater degree of public control over where future development occurs, and in what sequence, higher land values would be focused on sites selected for early high-intensity development, while the values of sites not so selected would be reduced.

(4) By raising the required quality standard of residential living and the costs associated with achieving that standard, the use of GUs would increase the number and percentage of low-income households unable to achieve that standard and also raise the subsidy cost of helping such households reach it.

The fact that widespread adoption of GUs would cause the two types of costs described above does not in itself constitute a constraint against such adoption. However, serious opposition to bearing these added costs would undoubtedly arise from many quarters, among them owners of small parcels of land, small-scale developers, local governments opposed to economic integration, or taxpayers opposed to increasing federal housing subsidies.

C. Effect of Present Tax Laws on Large-Scale, Long-Range Development: In the opinion of the writer, the pressure to retrieve initial investments and profits quickly is not a result of tax laws. Rather, it stems from the high discount rates investors assign to very risky operations, such as large-scale, long-range development. Most investors will invest in such a venture only if there is a very high rate of return on the equity capital involved. The result is a discouraging of investment in projects requiring many years for the return of profits against the initial investment.

Existing tax rules which provide relatively rapid capital recovery and high rates of return on equity investment were created as a *result* of the inherent riskiness of long-range land development projects. Without such incentives, most investors would not put much equity money into certain types of real estate at all.

In concept, many GUs need not be much larger than the typical scale of urban development today. Hence, investor resistance to undertaking high-risk, long-range, large-scale development projects need not be a major constraint against widespread adoption of GUs, except for the very largest type.

D. Basic Strategies for Coping with These Constraints: Strategy No. 1: Reducing the additional real social costs of development required by the GU concept, or reducing other real social costs of development to compensate for those added costs.

This might be accomplished by public assembly and preparation of land, thereby reducing the time and risks involved in private development.

In considering this strategy, it is necessary to distinguish between reductions in real social cost and redistributions of development costs that would not involve reductions in their totals. Substituting federal financing for private financing would in itself reduce the risk of failure associated with each individual project only by reducing its annual financing charge. The real riskiness of individual projects could be reduced if the government funding agencies used their collateral powers to limit future competition from other privately financed projects.

Large-scale development might reduce real social costs if it provided important economies of scale because of better land-use planning than is typical of smaller scale development. Most studies have shown that the possible economies resulting from such tighter coordination are not very large, however, and result mainly from larger benefits per unit of cost input rather than smaller cost inputs per dwelling unit.

Elimination of entrepreneurial profits through more direct public action does not result in a saving of *real* social costs. On the contrary, it probably raises the total social costs of development in the long run by shifting responsibility for its completion to people far less motivated to act energetically and rapidly.

Strategy No. 2: Prohibiting all small-scale development below the GU scale, or attaching relatively high costs to such development to discourage it.

This might be accomplished by passage of state laws requiring that no new development below the size of a small GU be undertaken and superceding all local regulations to the contrary.

Strategy No. 3: Providing strong positive economic incentives encouraging larger scale development compared to that below the GU scale.

Title VII has shown that positive incentives can work in producing candidates for success, if not success itself. The existing Title VII aids could be expanded to cover the GU scale and could include: guarantees of bonds underwriting land acquisition and infrastructure costs; grants for planning and development of infrastructure; special marketing assistance; long-term low-interest loans for initial period; high priority access to existing housing subsidies; special community impact grants to local government; and payment of all or some of local property taxes at outset.

To provide this kind of assistance, it may be necessary to delegate overview powers to regional planning agencies.

Strategy No. 4: Helping small-scale developers enlarge their capacities, through several types of aids such as financial and management counseling and advice and assistance in organizing cooperative ventures.

Strategy No. 5: Reducing present governmental obstacles to larger scale development by:

(1) adoption of statewide building and housing codes.

(2) adoption of statewide planned-unit development ordinances imposing uniform criteria throughout state.

(3) creation of statewide GU-fostering organizations in state government.

(4) creation of zoning review agencies at metropolitan-area or state levels, with powers to modify local zoning codes.

(5) alteration of present reliance upon local property taxes to finance schools.

Strategy No. 6: Having government agencies directly undertake one or more stages of development.

The form of direct public development activity most strongly emphasized by the AIA Task Force Report is acquisition and preparation of land. Either through this method, or through less direct exercise of eminent domain powers, the risks to private developers would be transferred to public agencies, and thus the risk to the developer of the entire project could be substantially reduced.

Public agencies could also carry out other stages of the development process, such as planning, financing, and creating structures.

The biggest difficulty with the public agency approach is its political vulnerability to either (1) never being created at all or (2) once created, being dominated by forces hostile to the basic objectives embodied in the GU concept. In contrast, private entrepreneurs who believe they can profit from the GU development will do so in the face of strong local opposition. The writer favors leaving the major initiative for GU development in the hands of private developers, with public agencies providing assistance through incentives, removal of certain obstacles, etc.

Strategy No. 7: Providing public subsidies for economically integrated development.

The economic integration objective linked to GUs in the AIA Task Force Report cannot be attained without large public subsidies for low- and moderate-income housing. This means that at least some new construction-oriented housing subsidies will be required. It may also be desirable to provide "community impact grants" to local governments to counteract "extra" costs if a significant number of low- and moderate-income households move into their jurisdiction as a result of the creation of a GU.

E. Conclusions: The biggest economic constraints to adoption of the GU are likely to arise from resistance to bearing additional costs (discussed above) by those who would have to pay them. Reducing such constraints could be done partly by reducing the real social costs involved and partly by creating offsetting redistributional devices that counteract the impacts of the GUs themselves.

"ONE MAN'S SYSTEM IS ANOTHER MAN'S COMPONENT" —SUMMARY

Harold B. Finger
Assistant Secretary for Research and Technology
Department of Housing and Urban Development

The term "growth" refers not only to the total increase in population, economic levels, and consumption of natural resources, but also to local or regional changes in those factors that can be generated from mobility or changes in public and private investment. In designing ways by which we can encourage or discourage certain directions of growth, we must look at both levels: on the national scale, we must concern ourselves with migration patterns and population distribution between rural and urban areas; at the local or regional level, we must be concerned with racial and economic isolation in the central city and with migration patterns within the metropolitan area. In both cases, our basic policy must be founded on the principle of freedom of choice. Providing the broadest possible opportunities for choice is an acceptable goal of a growth policy. Any more specific policy will necessarily involve restrictions upon growth and opportunity.

An examination of the Task Force Report prior to workshop discussion raises the following questions:

(1) Does the growth unit represent a full system composed of components forming a complex but unitary whole, or is it still only a number of components? The latter appears to be the case.

a. Is the growth unit large enough to ensure a "full range" of essential facilities and services?

b. Can priority actually be given to any one part of our national



Van B. Bruner Jr., Jaquelin Robertson, Archibald C. Rogers, FAIA, and William L. Slayton, Hon. AIA, talk with Rep. Henry Reuss (D., Wis.).

growth system without simultaneously providing choice of other living opportunities?

c. Is the growth unit large enough to "stimulate innovations in building maintenance, health care, cable TV, . . ."?

(2) Does the proposed choice fulfill the basic national value of freedom of choice?

a. Doesn't the growth unit suggest only certain physical development concepts and discourage others?

b. Doesn't the report emphasize growth in metropolitan areas, to the neglect of rural areas and new communities?

(3) The report proposes to deal with about one-third of the expected population growth between now and the end of the century. What strategy is to be pursued in dealing with the other two-thirds of that growth, or even in dealing with that portion of our present population which needs the kind of improved living environment envisioned by AIA?

(4) Miscellaneous points:

a. How would we avoid local government rejection of growth unit development?

b. How would the success of the AIA concept be evaluated if it were accepted today?

c. The second report should go into much more detail on the questions of land acquisition, finance, use and planning, since land is a key element in the proposal.

d. The second report should definitely give some attention to the basic factors of productivity and employment.

e. What are the governmental or institutional arrangements (public and private) needed for the required utilities and services?

f. Should government "plan and construct networks of utility corridors"? What is the local and/or private role?

g. Is it realistic to put utilities in "place incrementally in accordance with the largely private development of housing, commerce, industry" or is it necessary to fully plan the total development in order to anticipate the utility requirements and cost trade-offs and cash flow requirements?

Discussion of the above and other questions will highlight some of the systems and technological constraints on implementation of the AIA proposal.

"GOVERNMENTAL CONSTRAINTS ON THE IMPLEMENTATION OF THE AIA DEVELOPMENT PLAN" —SUMMARY

William Wheaton, Dean
School of Environmental Design
University of California, Berkeley

Given the breadth and depth of government involvement in major residential development, only what appear to be the most important government levels and functions will be examined below.

A. Local Government: The smallness and disparity of local government units reflects not only our national and local history, but also in most cases a genuine selection of local government services and tax levels by the consumer (Tirebout). This fractionalization also reflects an increasing class segregation in our society and is reinforced by numerous fears concerning such matters as public safety, local tax rates, environmental degradation, and public education. Abatement of these fears has generally been beyond the capacity of local governments and is increasingly so as citizen resistance to development grows. A few alternative solutions which might abate these pressures are:

(1) local tax relief through federal assumption of health and welfare costs.

(2) local tax relief through state assumption of education costs.

(3) channeling revenue-sharing funds preferentially to local governments which encourage development units.

(4) cost-benefit studies of planned development for local governments.

(5) local power to provide enhanced local services to development districts via state or federal "development unit grants."

(6) privatization of development units by steps to increase developers' influence vis-a-vis local governments.

B. County Government: County governments behave much like government units. Possible steps to strengthen county development planning might include:

(1) county municipal consolidation to internalize local externalities.

(2) special county service districts equivalent to Municipal Utility Districts to permit self-supporting loci special services.

(3) "Lakewood Plans" to provide efficient and higher level services inequitably to development units.

C. Special Districts: Special districts may be imperative for development units. They have the special advantage, under many state laws, of giving the developer control during most if not all of the development period. Because of the possibilities for abuse, special effort should be made to allow developers "freedom to act" at their own expense and risk, to provide for eventual incorporation into general units of government, to provide for an orderly transfer of control from developer to new residents, to require special plan review by higher governmental levels, and central bond issuance to prevent scandalous shifting of costs. With these safeguards, consideration should be given to sponsoring a "development unit" special district as a temporary multi-purpose government with development power and contracting authority.

D. Metropolitan: With a few exceptions, existing metropolitan agencies of government do not exist as government but rather as agencies for executing federally induced planning processes under token legal auspices. While the 701 planning procedure and the A.95 review process have helped to make local officials more aware of the need for more orderly planning, the appearance of

revenue sharing on a per capita or other formula basis threatens to eliminate local incentives for "more social" performance. Steps to strengthen planning efforts at this governmental level might include:

(1) metropolitan general purpose governments.

(2) metropolitan level allocation of revenue-sharing funds on a performance of plan basis.

(3) progressive reductions in revenue-sharing allocations for non-performing local units in a metropolitan area.

(4) "Fair share" housing and economic development plans.

(5) tax-sharing schemes which divide new assessables in locationally neutral ways.

E. States: The record of the states in this field is abysmal. New York has taken the lead with its Urban Development Corporation which enjoys, on paper, all the powers necessary to carry out state programs of development units. Even so, NYSUDC has not been totally successful in using these powers, as the controversy in Westchester County points out. In discussing state action, we should consider the following possible developments in the future:

(1) state urban development corporations with NYSUDC powers.

(2) state-enforced standards of equity in local distribution of housing, industry, land use.

(3) state development plans, with federal incentives and penalties for non-implementation.

(4) state supersession of powers now viewed as local but essentially new, i.e., air and water quality, coastal zone protection.

(5) direct state control of certain plan actions, or state power to "set aside" local regulations.

(6) state development courts to adjudicate equities in local government planning.

F. Federal: Despite the hazards of federal intervention, only the federal government has the will, the resources, and the distance from local parochial concerns to be effective in setting national policy goals, and in providing the funding or tax incentives which can implement those goals effectively. Recognizing that in the past federal intervention has tended to be symbolic rather than effective, the following appear to be likely areas for federal action:

(1) development of performance standards for allocation of revenue-sharing funds.

(2) maintenance of effort requirements in special revenue sharing.

(3) decentralized and flexible administration of categorical grants (HUD field offices and annual arrangements).

(4) "Annual arrangements" types of goal statements from local governments as prelude to block allocations.

(5) equitable performance standards in water and sewer grants.

(6) federal metropolitan development corporations.

(7) federal development banks, acting as a supplement in a system relying primarily on federal guarantees of state or local bonds or private borrowings.

(8) federal subsidies for special level services in development units.

(9) housing allowances backed up by developing incentives.

(10) forward commitment by federal government of housing and other assistance funds to minimize development risk.

(11) metropolitan agency authority to redistribute revenue-sharing funds withheld from non-performing local governments.

(12) support of states in creating urban development corporations.

G. Government Aids and Private Development: It seems that most of the development units built in the next few years will be privately rather than publicly built. From the perspective of private enterprise, government can take several initiatives which will enable business to do its job better:

(1) freedom from local building and zoning regulations.

(2) unlimited borrowing powers.

(3) government subsidies for development of sewers, streets, schools, parks, etc.

(4) reserve condemnation powers to complete site holdings.

(5) freedom from the "clout" held by local officials who traditionally provide approvals and infrastructure.

To conclude, it is not clear that a single-purpose program can be applied to the diverse processes of development.

AN OVERVIEW OF THE GOVERNMENT WORKSHOP

Frederick O'R. Hayes
Consultant in Urban Economics

A. The Balanced Community: The *Growth Unit* recommended by the National Policy Task Force would be an economically and racially balanced community. There would be open occupancy as well as an extensive use of housing subsidies for families unable to afford housing at market prices and rents. And something more, for the task force regards the growth unit as serving, among its purposes, as a means of relocating families "trapped in poverty and the squalor of declining neighborhoods."

This last restores to national public attention a long-neglected policy focus that was explicit in the development of the Housing Act of 1949. In that act, the new slum clearance and urban redevelopment program (later urban renewal), by providing that projects must be predominantly residential either in existing blighted use or in re-use, emphasized the dual objective of clearing bad housing and building good housing. It parallels, in this sense, the requirement in the public housing statute that the community eliminate a substandard housing unit for every new unit of low-rent public housing it constructed.

In urban renewal, the critical qualification to the destruction of substandard housing was the then revolutionary requirement that families be relocated into decent housing at rents they could af-



Van B. Bruner Jr. studies task force recommendations during House testimony, June, 1972.

ford. But the Act also provided for open-land projects and, in a fascinating exchange of correspondence with Housing Administrator Foley, Senator Paul Douglas "clarifies" the intent of this section. Douglas argues that the open-land project should ordinarily be predominantly residential and he sees its major purpose as a means of providing the housing necessary to "decant" the excessive densities of the central city slums.

In two decades, the Douglas concept has been largely unfulfilled promise. We have taken an increasingly narrow and territorial view of relocation—first with the argument of "territorial rights" of existing tenancy to be relocated *in situ*, later with the notion that dispossession by government coercion was inherently bad, and finally with the idea that destruction of "housing for the poor" was undesirable and repressive regardless of its condition. However meritorious these policy perspectives, we have rarely been able to couple slum clearance with any substantial relocation into new and economically balanced communities.

Several of the participants in the government workshop were extremely pessimistic on the prospects of constructing growth units that were either economically or racially integrated. The dominant white middle-class citizenry is, in their view, overwhelmingly opposed to new neighborhoods with significant proportions of blacks or the poor—and is fully capable of blocking such developments.

Yet, the ultimate consensus was more optimistic for several reasons. Pessimism arose largely from two special cases—first, the important area of suburban development and second, the instance where low-rent housing is planned for an existing middle-class neighborhood. The latter is not a growth unit where an entire new neighborhood would be built to include housing for all income groups. And, with respect to the former, the task force clearly regarded within-city growth units as being as important as suburban growth units; and, in the cities, we have seen many successful large projects that provide for low- and middle-income housing as well as housing at market rents or prices.

Perhaps, more important, we have had, to date, precious little experience with the newer and more subtle approach of subsidizing the family rather than the housing unit. A separate project or building clearly identified as low-rent housing is markedly different in its impact than the allocation to low-income families of some proportion of otherwise undistinguishable housing units in a community otherwise populated by the middle class. The task force policy recommendation for subsidizing the family rather than the housing unit was, for this reason, strongly supported by the government workshop.

The experience of the Urban Development Corporation also adds an optimistic note. The highly publicized problems in two Westchester County communities are offset by the acceptance of the concept of community balance in many other locations—in the new town in Monroe County, New York, among others. One may not be able to create in other states replicas of the powerful UDC, but the critical feature may not be the powers of the UDC but its capacity to seek out and use political leadership that perceives the problem and, however tenuously and tentatively, is willing to see the development of a solution in the form of a balanced community. Our missing ingredient is not power—but competent and aggressive public entrepreneurship.

B. The Public Entrepreneur: The task force placed heavy emphasis on the role of government in assembling land and making the infrastructure investment. They recommend governmental acquisition of 1-million acres within the core cities and the metropolitan periphery; this land could accommodate one-third of the nation's growth over the next 30 years.

The workshop was not sanguine on the prospects of government intervention on this scale or the creation in the states or metropolitan areas of instruments with the extensive powers needed to do the job. But there was no dissent whatsoever on the very revolutionary notion that government should assume basic responsibility for one-third of the dwellings needed to house our growing population.

One may doubt that this conclusion is based upon a perception of the current competence of government. The emphasis in the discussions on the need for new institutions reflects partially the territorial inadequacy of existing institutions but also the substantive and procedural limitations of existing governmental organizations. The maze of limitations—the civil service system, the compliance with external regulation including zoning and building codes, and the hampering procedural requirements—all burden most agencies within the normal structure of government. And whether because of these constraints or for other reasons, the urban renewal agencies—the clearest antecedent to the growth unit agency—often failed to secure staff of adequate competence. If they did better than older government units—and there is considerable evidence that they did (e.g., the Report of the Municipal Manpower Commission), it was probably attributable to a fresh start with a new agency and to the frequent separation of the function in a separate authority or organization.

Peter Drucker has argued that the basic function of government is policy and program development and that government is ill-suited to operate programs and almost always does it badly. We would do better to move from Drucker's position to one more differentiated and potentially more sophisticated. First, we should recognize the continuity of variation from the traditional government bureau to the private profit-making corporation. In between, there is a multiplicity of variants—public corporations, public authorities, private non-profit corporations among others—that can be custom tailored to particular needs (see, for example, *Politics, Economics and Welfare*, Robert A. Dahl and Charles E. Lindblom for a systematic analysis of the problem).

Secondly, all government functions are not alike. The most important general rule is that innovative and nontraditional functions need the greater flexibility that accrues as we move across the range from traditional bureaucracy toward more independent and sometimes more private models. A city finance department can operate under a set of procedural conditions intolerable for a

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growth unit development organization.

We know that the growth unit development organization must be a public body—for the power of eminent domain is crucial to its purpose. Similarly, it must have a capacity to finance the enormous front-end infrastructure and land costs associated with large-scale development—and this almost certainly requires borrowing supported directly or indirectly by general government revenues. Melvin Mister added, with the support of his workshop colleagues, that it should also have the authority to operate anywhere within its statutory turf whether the area is blighted or not, that it should as a developer of last resort be authorized to build or sponsor the building of commercial and industrial structure as well as housing, and that it should have the power to construct any public facility without dependence on other public agencies.

The basic model is the Tennessee Valley Authority, a territorial focus for organization, incorporating all of the functions and powers necessary to complete the job without major dependence on other agencies, public or private. The camels with their noses under the development tent would, in effect, be brought in out of the rain.

Should they have, too, the authority, like the New York State Urban Development Corporation, to override local zoning and building codes? The group would probably agree that ideally it should, but that it was unlikely in the vast majority of our states and metropolitan areas to be granted such authority. Almost needless to say, the price for relief from the minutiae of regulations and review should be a new and different system of accountability—the substitution of wholesale communication with and control by a general government for the retail controls of its many separate agencies.

One could draw the line on the role of the public development agency at many different points in the process. The task force, for example, would be satisfied with an agency able to assemble the land and make the required inducement in needed public facilities. Mister wants something more with the power of developer of last resort to build literally anything. The urban renewal experience would support the Mister agreement to some substantial degree; there are points where public and social objectives require a degree of risk-taking beyond what can be expected from private investment. Even the Urban Development Corporation can make such investments only when annual payments for rent or debt service are adequate to cover debt service on UDC bonds.

C. The Private Sector: Most of the housing now being constructed in the United States is built and marketed by private developers, even where government subsidies are involved. We agree that this should be true of the growth unit development—that land assembled and supported by public facilities built by the public authority should be developed primarily by private developers subject to plan and control by public authority.

But even with the recommended public purchase of 1 million acres of land, the private sector would still be building, without special government involvement, housing covering in total amount about two-thirds of that needed for population growth plus all of the replacement demand. A key question is our capacity to apply the growth unit frame to some significant proportion of this housing.

There are three basic problems: (1) the difficulty of land assembly; (2) the geographic and functional Balkanization of land-use regulation; and (3) the enormous increase in required infrastructure investment as projects move beyond usual scale into growth unit and ultimately new town scale.

It is not impossible to surmount these problems. Rouse's Columbia, Reston, and Flower Mound are all examples. And so are the multiple Levittowns, Long's Maryville near Phoenix, and many others. (If all of these do not convey an instant sense of satisfaction, they only remind us that the scale of development is only one aspect of the problem.) The crux of the matter is that the problems are not surmounted sufficiently often, and that they entail risks that most developers are unwilling to take.

Nearly all depend upon special circumstances—large tracts in a single ownership, location beyond the developing fringe or in areas low in esteem under current style and fashion. But we might raise the opportunities for larger scale development and reduce its risks by a few relatively simple (at least conceptually) measures.

With AIA's broader focus on growth units ranging from 500 dwelling units to new town scale, Title VII of the Housing Act of 1968 could be amended to provide similar types of assistance to developments ranging upward from 500 dwelling units. This recognizes that there is a continuum, from small projects to the very largest, of rising developer risk and investment on the one hand, and also increasing prospective public benefit.

D. Planning and Land-Use Control: Present land-use controls are antithetical to large-scale development—whether public or private—although they bear hardest on the private developer. A performance evaluation would suggest several problem areas:

(1) Zoning powers are typically vested in the lowest and smallest unit of general government—the village, town, or city. Many, perhaps most, large-scale developments will cross one or more zoning jurisdictions with the obvious resulting problems of divided jurisdiction. In addition, the developer must deal with public land regulation at its most parochial level.

(2) The large-scale project will rarely fit existing zoning and platting. Even with a planned unit development provision under the zoning law, the project will ordinarily require separate approvals for zoning changes or exceptions, or for acceptance as a PUD. These tend to be drawn-out and political, and involve subjective judgments.

(3) Government does not control land use solely through zoning. The developer must, in addition, contend with building and housing codes, occupancy ordnances, fire laws, approval for sewage connections, septic fields or disposal facilities, water connections, and others. The larger the project, the more he may be involved with standards for the construction of public facilities—from streets and street lighting to schools

Virtually every large private developer complains about the enormous cost of delays in their complex approval process, and public developers have often had the same problems.

One important step forward would be to shift zoning responsibility for major or strategic features of development to the county or, in multicounty metropolitan areas, to an appropriate metropolitan area. These should cover all large-scale or strategic developments—housing, shopping centers, industrial parks—as well as major transportation facilities—airports, shore line protection, major open space needs, and other plan elements of like ilk and importance.

Perhaps we should also consider, in our current maze of controls, the possibilities for: (1) the selected use of self-certification procedures, and (2) centralization of administrative responsibility for different codes. There is no reason why a builder cannot apply code performance standards himself, and proceed with construction subject to review as he proceeds. The risks should be small if he, in fact, is following the code and has the sense to check out marginal cases of qualification. This does not eliminate enforcement, it merely shifts it off the critical path of sequential activity.

Similarly, even where the composite of land-use and building regulations arise from many different agencies, there is no reason why actual administration and determination of compliance cannot be centralized in one place. If exceptions or variations are required, they should be referred back to the initiating agency.

The temporary special district is another possibility which can cover both land-use control and borrowing authority. Wheaton discusses the special district in his paper, *Governmental Constraints on the Implementation of the AIA Development Plan*, and points out the risk of abuse of the power by the developer, and the desirability of a model law which would retain the advantage of the special district but with adequate governmental protection. Unexplored is the possibility of creating temporary special districts controlled not by the developer but by the county or conceivably even the state.

E. Federal Requirements: The government workshop participants expressed great wariness on the matter of special revenue sharing, and a near unanimous belief that performance requirements should be included in such a program. These performance requirements should include the machinery and research for an effective program of development and redevelopment. The growth unit is the preferred form of development but it should go where it ought to go and can be serviced—and this is a major responsibility of the planning process. One should add that a strong planning process is the only means by which a development program can be integrated with a conservation program. Given the strong environmental movement, the opposition to growth and development may well kill programs for good large-scale development unless equal attention is paid to the protection, as one participant put it, of the "moose and the goose."

F. Neglected Issues: The government workshop participants paid little attention to some of the basic issues of governmental and private finance which seemed more appropriately covered in the economics workshop; and sheer limitations of time led to a focus of discussion that involved only a few of the possibilities and problems covered in the Wheaton paper.

Mr. ROGERS. We ask that you do consider our recommendations which derive from this statement for incorporation in the pending legislation. Thank you.

Senator STEVENSON. Thank you, Mr. Rogers, for a helpful presentation and also for the offer of further help.

The Better Communities Act proposed to eliminate the Federal environmental review of community development programs. As you know, the Senate bill does not eliminate environmental review. How do you feel on that question?

Mr. ROGERS. I think it is a philosophic answer for the time being. We do not think environmental review should be eliminated. As expressed in our report, we think the longer term objective is to explore new ways of designing and putting in place these new communities so that they achieve an equilibrium of nature and a sympathetic sheltering relationship to society. We believe that if this is done—and we think it can be done—then the need for environmental review disappears. But this is a matter of initially establishing firm criteria to be followed all through the development rather than playing Russian roulette in terms of the design.

Senator STEVENSON. Mr. Marshall Kaplan said—and I quote him—

> I would initially accept such submittals merely on the certification by local chief executives if consistency with the statutory objective. Prior to the receipt by localities of their second year allocation I would permit Federal officials to staff and monitor local performance with respect to several defined criteria.

Do you approve of that approach?

Mr. ROGERS. I would again think that it is a question of timing and putting such an approach in context. Right now, it would seem that it would represent a very risky departure of the responsibility of the Federal Government in terms of being sure that national purposes are being followed. What is needed, first of all, is a reexamination of the roles of the Federal Government vis-a-vis State and hopefully metropolitan areas in which the responsibility—maybe self-certification or something of this sort—is clearly transferred to the operating levels below the Federal Government; and then, at that point, I think his recommendations could work. But I think there is going to be a formative period before that can be done.

Senator STEVENSON. You stress the importance of metropolitan planning and development agencies. I think you also mentioned Illinois. I don't know whether it is still the case, but we not long ago anyway had more units of local government than any other State in the Union. It is a problem everywhere, a severe problem in Illinois.

Particularly when it comes to getting the units of government in the metropolitan regions and specifically the city together with the suburban units on joint planning and development, a metropolitan body could help. We have metropolitan bodies across the country. We have the Northeast Metropolitan Planning Commission in northern Illinois. It has from its inception been plagued by that difficulty of simply getting these units of government together.

Now, one of the questions to be addressed is how, accepting the necessity for metropolitan planning, you compose, constitute these bodies in a way that makes it possible for them to overcome local parochial differences. You said representation by direct election. Would you expand on that. How do we compose these bodies in a

way that enables them to be effective through direct election of all their members?

Mr. ROGERS. I think we have to start, Senator Stevenson, by indicating that there are several alternative paths to this goal. We are quite aware of the need for accountability. I won't say that there is universal agreement with this proposition. However, because all sorts of facilities—sewer, water, and other kinds of functions—have an important impact on determining metropolitan form, those who man them should be elected by the metropolitan constituency.

We feel that some of the patterns that do exist can become models for the future. For example, I had the opportunity to speak to the Chicago Home Rule Commission some months ago on the opportunity which they saw in your new constitution to develop a better deal, I guess, for Chicago. I spoke to them about taking a hard look at doing away with zoning, and this was rather shocking. I suggested to them that if the State, for example, were to recall all of the zoning powers delegated to a locality, including Chicago, and a new approach to this method of land control were taken at the metropolitan level of Chicago including the multiple townships around it, that indeed all might become winners, all the citizens in the area.

Another model is the consolidated governments which we see—well, the latest being Jacksonville, Fla., and the surrounding county, Duval County, which simply merged. They are now a single entity.

Another model is Minnesota's Twin Cities area, Minneapolis/St. Paul, where they have gradually evolved a whole series of metropolitan functions which also go to the issue of balancing out the pluses and the minuses so that the localities in that metropolitan area no longer compete in terms of who gets the manufacturing plant and who gets the public housing facility—the cost and benefits are distributed on the tax base by this metropolitan agency.

So I think there are many ways to do it. We hold to the importance of the accountability, though, as opposed to appointment, even appointment by elected officials.

Senator STEVENSON. I think there is a growing body of opinion in the country which says in substance that we are never going to overcome these political differences on a metropolitan basis, with the exceptions you cite, and that we should be looking increasingly to the States for a major role in planning and development, the assumption being that they can overcome some of the local/regional differences.

How do you perceive the role of the State?

Mr. ROGERS. I think that's a very correct perception. The States must now reenter this whole field of urbanization; but with an awareness of the need for the preservation of ecologically fragile areas, recreational areas, resources, and many other values within the State. So I would categorically say yes, the State must now be the operating, cutting edge, if you will, of a national policy, growth policy, community development, or whatever.

If you recall the map of the United States with the 65 metropolitan areas on it, I think as many as 30 percent of those areas cross State lines. The question of resolving the problems of these areas at the State level, and providing for the appropriate consolidation and a true metropolitan function level that would be the creation of metropolitan residents themselves, even though they be in two or more States—I

think that's the only difficulty. But I do think that there is a need for the States to take over; and the first thing they should do is to create these metropolitan agencies. I realize the political difficulty, don't misunderstand me, but it seems to me there are ways around these and maybe the electoral process is one.

Senator STEVENSON. You also stressed what you perceive to be at least to me enormous possibilities for planned development upon the very solid foundations which exist in the smaller metropolitan communities across the country, the 50,000 population range community, and they do have the essential services and they have universities and other facilities which can contribute to a very healthy community of existence and to the extent you can build upon those foundations it seems to me you also would take some of the pressures off of the larger metropolitan regional areas.

I wonder, could you expand upon that proposition? How do we develop on those foundations and begin to shift some of the population growth patterns?

Mr. ROGERS. This is at the heart of our thinking, Senator Stevenson. For example, we see a trend now which indicates a movement away from the largest of our metropolitan areas—New York, Chicago, Los Angeles—toward smaller metropolitan areas still within this 500,000 scale—toward Denver, Phoenix, et cetera. I think this movement is indicative of a new fact of economic life—the growing employment centers are now on the service sector and are no longer geographically limited. We can virtually move wherever we want. That is a new factor.

I look at the further opportunity of being faithful to your proposition and making possible a broader choice of living options for people. Of course, where and how people wish to live sometimes are different. I could take, for example, Bloomington, Ill., which is at the right scale, somewhat larger than 50,000; but it has all the facilities. It has a good economic base. It has a strong cultural base and in most cases this size city is very close to a large-scale city. It is not so far from Chicago that it cannot participate in the richness of the Chicago area.

Therefore, it seems to me that we would be foolish not to reinforce such smaller communities as part of a national policy, and we indeed do see ways of doing that. There are many people who would choose that kind of life if they felt that they weren't having to give up too much in terms of the economic opportunity.

Finally, I return to the real problem of quality community development which exists in our large metropolitan areas. On page 10 of our formal statement to the committee we speak of encouraging the creation of metropolitan planning and development agencies through the funding allocation mechanism. We think that's an important target at which to aim.

Senator STEVENSON. You acknowledge that one of the real problems is the larger metropolitan areas. That problem could be alleviated to some extent to give people a choice, an alternative, in Bloomington, for example.

Mr. ROGERS. The fact of a large metropolitan area or megolopolis, if there is such a thing, in no way argues against smaller communities

or against neighborhoods. So we see the "growth unit" and the importance of planning and development at the neighborhood scale as a perfectly valid concept, whether we are talked about the entire northeastern corridor, or the Chicago area, or Bloomington, or the innercity.

Senator STEVENSON. I think that is terribly important. The sense of community or neighborhood is breaking down, especially in the larger cities.

Well, I wish we could prolong the discussion, Mr. Rogers, but we have very little time. Thank you.

Mr. ROGERS. Thank you very much.

[Complete statement of Mr. Rogers follows:]



THE AMERICAN INSTITUTE OF ARCHITECTS

COMMUNITY DEVELOPMENT REVENUE SHARING/BLOCK GRANT

A STATEMENT BY

ARCHIBALD C. ROGERS, FAIA

FIRST VICE PRESIDENT
THE AMERICAN INSTITUTE OF ARCHITECTS

AND

CHAIRMAN
NATIONAL POLICY TASK FORCE
THE AMERICAN INSTITUTE OF ARCHITECTS

TO

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

WASHINGTON, D.C.

July 27, 1973

1735 NEW YORK AVENUE, N.W. • WASHINGTON, D. C. 20006 • (202) 785-7300

Mr. Chairman and members of the Committee. I am Archibald C. Rogers, First Vice President of The American Institute of Architects and Chairman of the Institute's National Policy Task Force. I am also a practicing architect in Baltimore, Maryland. Accompanying me are Michael B. Barker, Administrator of the Institute's Department of Environment and Design and David E. Osterhout, the Institute's Director of Congressional Liaison.

Today, The American Institute of Architects, the national society for the architectural profession representing 24,000 licensed architects, wishes to express its views on the community development legislation currently pending before this Committee.

Mr. Chairman, we have divided our written statement into three sections. The first section covers five major points we would like to make regarding the pending legislation. The second section outlines specific provisions to back up the recommendations contained in section one. The third section is a brief slide presentation on community development at the neighborhood scale in what we call "growth units".

Over the past ten years, The American Institute of Architects has directed a great deal of thought to the process of community development. The Report of our National Policy Task Force, titled "America at the Growing Edge: A Strategy for Building a Better America", sets forth a policy and strategy that have been adopted by the Institute's Board of Directors and by the national AIA Convention.

In brief, the new policies recommended in this report would change the "ground rules" that now shape, and distort the shape, of American communities; create a new and useful scale for planning and building in urban areas; and commit the nation to a major land acquisition policy to guide development in and around key urban centers.

This report is now being refined with the assistance and cooperation of over thirty professional and other organizations. This working group of individuals and organizations, listed in an appendix to this statement, has agreed on the need for a national growth policy and is now working on the specific details of such a policy. This year, the Institute is preparing special detailed reports on re-creating the inner city, creative economics, and housing, which essentially expand on the concepts contained in the first report. We believe that the work of our Housing Policy Task Force will be of special interest and assistance to this Committee when their report is completed by the end of this year. Since our comments today are largely based upon our National Policy Task Force report, we request that the report be included in the hearing record.

SECTION I GENERAL COMMENTS

A) Grant Consolidation. The American Institute of Architects wholeheartedly supports the idea of Grant Consolidation. For too long the nation has been struggling in a quagmire of red tape in our community development programs. Urban renewal, neighborhood facilities, open space, basic water and sewer facilities, Section 312 rehabilitation loans, public facility loans, and model

cities are each programs whose objectives we fully support, but whose operational characteristics leave much to be desired. Consequently, the Institute welcomes the initatives by Congress and the Administration to consolidate the present patchwork of categorical grant programs for community development into a revenue sharing or a block grant format.

B) Guaranteed Funding and Program Conditions. One of the most frustrating characteristics of the existing community development programs, particularly to local agencies, is the inconsistent and unpredictable nature of program funding. We believe that community development should be supported at the local level by relatively constant Federal funding programs. A second and equally frustrating characteristic of the present programs for local governmental officials is the continually changing and often conflicting program requirements. We support the establishment of uniform requirements as well as simplification and continuity in the funding of community development programs.

C) Federal Goals Still Essential. The Administration's bill almost totally ignores the prosecution of national community development goals in its proposed Better Communities Act. This is unacceptable. State and local governments enact budgets which commit close to 200 billion dollars a year of locally generated revenues. The record of these governments in achieving national housing and community development goals using their own funds, particularly in metropolitan areas, has been bleak. Indeed, the categorical programs which would be terminated by the pending legislation, were enacted to overcome these deficiencies. We conclude that any community development legislation must insure continued pursuit of national goals, including housing, renewing the worn-out sections of cities, sound metropolitan development patterns, and the building

of new neighborhoods and communities. In Section II of our statement we have specific suggestions on the kinds of activities to be eligible for assistance, and on application procedures and requirements aimed at keeping national goals in the forefront in the community development process.

D) Incentives for Large-Scale Development. After many years of study and close involvement in the community development process, we have come to the conclusion that the nation can best achieve its physical, economic and social objectives in the community development field through an increase in the scale of development. We call this new scale of development the "growth unit". A "growth unit" can range in size from 500-3,000 dwelling units and would provide a complete package of physical and social facilities at the neighborhood scale. We believe that an increase of scale of development is the most productive technique to achieve national community development goals. Our National Policy Task Force report documents in detail our analysis which leads to this conclusion. Included in the second part of this statement are specific legislative proposals to encourage this scale of growth in the community development program. Also our slide show will further illustrate the "growth unit" idea.

E) The Institutional Base for Community Development. In Title VII of the Housing and Urban Development Act of 1970, Congress declared that national urban growth policy should "strengthen the capacity of general governmental institutions to contribute to the balanced urban growth and stabilization". For the next thirty years some 18 million acres of land will be urbanized. Effective governmental controls are desperately needed to guide the conversion of this land from rural to urban use. The 228 metropolitan areas which census

data suggest will accommodate the bulk of growth for the next thirty years will include 406 counties, which are governed by 20,755 separate governmental units. The Chicago metropolitan area has 1,113 local governments, Philadelphia 871, and Pittsburgh 704. Paul Ylvisaker, a member of the AIA National Policy Task Force puts it well: "the dynamics of our population and its needs presently exceed the capacities of our political structures to provide guidance for intelligent growth. To my mind the crisis now concerns the ability of this country to rise fast above its past record and achieve the things that must be done for its people in the year the people need them done."

None of the community development block grant bills adequately support the need for institutional change, particularly at the metropolitan level. Unless substantial incentives are provided in this community development legislation for institutional change, we will merely continue the present piecemeal, inefficient and inequitable community development processes which have led to unattractive, socially imbalanced, and often ill-conceived and mislocated urbanization. None of the legislation before this Committee adequately address this issue and, in fact, would seem to encourage the present unsatisfactory existing patterns. In Section II of this statement we recommend specific additional provisions for the section on the application and allocation of funds to achieve this objective.

SECTION II PROPOSED PROVISIONS FOR COMMUNITY DEVELOPMENT LEGISLATION

For the purpose of this analysis we have taken S. 1744, the Community Development Assistance Act of 1973 and used it as a basic framework for our comments.

A) Eligible Activities. Generally, we support provisions of S. 1744 over those contained in the Administration's Better Communities Act, S. 1743. Specifically, we would like to emphasize three provisions contained in this respect:

1. technical assistance to persons or organizations essential to the community development process;

2. financial incentives to get public facilities built when needed in a community development program; and

3. payments to housing owners for losses of rental income incurred in holding for temporary periods housing which is to be utilized for the relocation of individuals and families displaced by program activities. (This provision comes from the Omnibus Housing and Urban Development bill, H.R. 16704, approved last year by the House Banking and Currency Committee.)

For the past five years The American Institute of Architects has supported Community Design Centers which provide technical services in the architectural, planning, and community development areas for individuals and community groups from our central cities' impoverished neighborhoods. The primary staffing for these Community Design Centers (CDC's) comes from architects who volunteer their time to serve the needs of the poor and disenfranchised. Today there are 71 Community Design Centers operating around the country. With your permission Mr. Chairman, we would like to include a list of those Community Design Centers in the hearing record. Even though Community Design Centers basically operate on the volunteer's time, they, nevertheless,

do need a minimal amount of funding. We believe if citizen participation is going to have any meaning at all, it is necessary for the community development legislation to support in a modest way the activities of these kinds of citizen's programs in impacted neighborhoods. Therefore, we strongly support the provision in S. 1744 (Section 4 - Subsection 9) which provides technical and/or financial assistance to persons or community based organizations providing necessary or appropriate services, including advisory services, to planning and execution of community development programs.

One of the largest problems confronting a local governmental unit in attempting to implement a community development program at a neighborhood scale is the timely installation of the public infrastructure to support the community development program. For this reason we support the provision in S. 1744 which includes under "Eligible Activities" the payment of financial incentives to encourage timely construction of public facilities. These facilities, such as schools and libraries, are required for the execution of the community development program, but are not otherwise eligible. The financial incentives for the timely construction of these essential facilities would not exceed 15% of the total Federal contribution.

The relocation of people to new housing because of the implementation of community development programs is as delicate and complex a problem as there is in the community development field. We believe that the provisions in chapter four of H.R. 16704, as reported last year by the House Banking and Currency Committee had a worthy provision in this area. Under "Eligible Activities", this legislation includes payments to housing owners for losses of

rental income incurred in holding, for temporary periods, housing which is to be utilized for the relocation of individuals and families displaced by program activities. While provisions of the Uniform Relocation Act may be interpreted to cover this situation, we do not believe it is clear. Because of the delicate nature of this problem, we believe that such a provision should be included in the community development legislation.

B) Amount of Federal Share. If an adequate application procedure is included in the community development legislation, we believe it is not necessary to require that state and local governmental units provide a share of the cost of community development programs. Anything less than 100 % Federal funding would place additional red tape between state and local governments and the funding source. We would much rather see the recipients concentrate on meeting stiff application requirements than be compelled to meet matching requirements, particularly when the highest local contribution proposed in any of the community development legislation is only 10%.

C) Application Requirements. Any community development legislation, without carefully drafted application requirements, is nothing more than an abandonment of the objectives of the existing categorical grant programs. Without going into the specific provisions, we would like to express our support for the application requirements contained in S. 1744. However, we would like to add three additional requirements that state and local governments must meet in seeking funding from the community development program.

First, for local units of government in metropolitan areas, we would like to see evidence of cooperation in the formation of, or participation in, a metropolitan planning and development agency as a condition for the receipt of funds. Desirable characteristics of a metropolitan agency are:

1. representation by direct election;

2. power of eminent domain;

3. power of taxation;

4. planning responsibility for metropolitan housing, transportation open space, utilities, solid waste disposal; and other functions of a metropolitan scale;

5. power to override local land use controls when they conflict with the metropolitan plan and program;

6. a development capacity to install in advance needed public infrastructure to support and shape growth.

We believe this kind of application requirement will begin to solve the lack of an institutional base at the metropolitan level to deal with what George Romney called "the real city's problems". This section could also specify that after 5 years those metropolitan areas that have not formed a metropolitan planning and development agency would loose, say, 50% of their entitlement under this act. That is, each local unit of government would be penalized to the extent of 50% of their entitled funds.

Second, we would like to see state and local governments show evidence of serious consideration of local property tax system reforms, including a time table for implementing these reforms. Aspects of the local property taxation system which encourage exclusionary zoning, provide inequitable educational

opportunities, and threaten the preservation of open space and historic resources should be included in reform efforts.

Finally, we would like to see recipients of community development funding certify that they are taking steps to aggregate the scale of development both in new development and in the redevelopment of existing neighborhoods. It is at the neighborhood scale, or the scale of what we call the "growth unit", that national growth objectives can best be met and that the national housing goal of "a decent home and a suitable living environment for every American family" can best be achieved.

C) Allocation of Funds. It is clear in the last fifty years that we have become a nation of metropolitan cities. Seventy-five percent of our population lives in the great metropolitan areas of the country. This urban concentration appears to be continually increasing. Consequently, we believe the provisions of chapter four of H.R. 16704, the 1972 House legislation, are most appropriate -- wherein 80% of the community development funds are allocated to metropolitan areas. This would include the funding of municipal governments as well as urban counties.

In order to stimulate the formation of metropolitan planning and development agencies through such a funding allocation, and indeed overcome a basic fault of the proposed legislation which would otherwise tend to entrench balkanized local units of government in metropolitan areas, it would be desirable to create a bonus system in the first five years to encourage metropolitan cities and urban counties to institute a planning and development agency as described in our statement previously.

After five years, those metropolitan units of government without a planning and development agency would not only lose the possibility of a bonus, would be subject to an increasing withholding of their entitlements under the Act until they comply. Those funds which are withheld would be reapportioned among the metropolitan units of government which do comply.

We have not had the computers or the statistical base necessary to work out the precise impact of this recommendation on the individual states, cities, and counties. We also realize the political difficulties that such a recommendation on funding allocation poses. However, our objective is clear. We want the funding share of municipalities and urban counties in metropolitan areas to be conditioned upon the creation of appropriate governmental mechanisms to control and shape their growth. Granted, there are many variations on how such planning and development agencies can be set up. It would therefore be appropriate to include a waiver by the Secretary of this provision if a suitable substitute were offered by the municipalities and urban counties in a given metropolitan area.

E) Authorizations. Basically, we support the Senate version of the community development legislation (S. 1744) because its higher authorization level is more comensurate with the magnitude of the problem. Yet, even the authorization level of S. 1744 can only be considered a beginning. We assume, and hope, it is the intent of Congress and the Administration that this community development revenue sharing or block grant legislation would provide a permanent source of funding for community development activities for state and local

governments. In effect, the basic legislation is a contract authority. In this vein, we would like to see the authorizations made for at least five years as proposed in the Administration's bill.

CONCLUSION

To summarize our comments on community development legislation pending before this Committee, The American Institute of Architects believes that steps should be taken to eliminate the present fragmentary Federal effort toward community development and implement (institute) a coordinated, comprehensive approach that deals effectively with all the interrelated elements.

The comprehensive approach we are advocating should address itself to the five issues which we have outlined earlier:

1. the consolidation of categorical grant programs for community development into a revenue sharing or block grant program;

2. guarantee of continuity of program funding and program conditions;

3. the maintenance of national community development goals;

4. the provision of incentives for large-scale development;

5. the development of an appropriate institutional base for community development, particularly at the metropolitan level.

The American Institute of Architects has appreciate d this opportunity to present our views on this legislation. We would be pleased to work with you and your staff further on this legislation, and trust that the Committee will thoroughly review our recommendations and act favorably on them.

Thank you.

SECTION III BRIEF SLIDE SHOW ON "GROWTH UNITS"

Now, Mr. Chairman, with your permission we would like to present a brief slide presentation on our ideas for growth at the neighborhood scale. You will note in the second section as well as in the statement that I have given you so far, our emphasis is on the importance of planning and development at the metropolitan scale, the "real city", as described by Secretary Romney. We are also emphasizing, at the other end of the spectrum, the importance of planning and development at the neighborhood scale. Here we are speaking of growth units, by which we mean new and renewed neighborhoods, perhaps as small as 500 housing units or as large as 3000; in any case, sufficiently large to provide a full range of community facilities, both physical and non-physical -- housing, shopping, recreation, employment, public services, etc. These units could be placed within the interstices of existing urbanized areas in metropolitan areas.

Slide 1 map of metropolitan areas	This map shows you the 65 metropolitan areas which, as of the last census, had 500,000 or more population.

Slide 2

a map of a particular metropolitan area

We examined a typical metropolitan area to see if it did have an adequate amount of vacant land on which new neighborhoods or growth units could be developed. In this anonymous metropolitan area we discovered some ten to fifteen thousand acres available, some within the actual core and some within the suburban area. We discovered that we could put a considerable number of new communities or growth units within this metropolitan area without going beyond the current urban area except for the opportunities to provide at the outskirts for a new city, perhaps at the scale of Columbia. We further found that we did not have to take existing park land, or indeed land that should be added to the park system. The purpose of the program which we are recommending and which we refer to in our National Policy Report which we have filed with you is to expand the options for our citizens to live where they wish and how they wish. The next six slides show ways of locating these small new neighborhoods or growth units.

Slide 3

growth unit within the core of a city

This indicates the opportunity, which was shown on the prior slide, of taking cleared land within the inner city and developing a small, new growth unit. As the existing residents of the inner city would tend to move from dilapidated communities into safe and healthy new communities, this would then create the opportunity of remodeling of an existing community. This would then create the opportunity for upgrading the dilapidated communities within the inner cities within a period of time. In order not to "tilt" the balance in favor of the inner city or in favor of the suburbs, at the same time we would also propose the development of a growth unit as suburban in-fill.

Slide 4

growth unit in existing urbanized area

Slide 5

growth unit in suburban setting

We would also propose the development of a growth unit in existing open areas in the suburbs. This slide shows the opportunity presented by a large regional shopping center in the suburbs with perhaps as many as 60 acres devoted to parking. This parking could be platformed over and developed as a high density growth unit at the same time as

one is developing the core.

Slide 6

the diagrammatic sketch of a large new town developed over a period of time by growth units

New towns, which the country needs, can be seen as collections of growth units. We feel that new towns can more realistically be developed by a gradual addition and insertion of new neighborhoods over a period of time and we feel further that these are most likely to succeed in the vicinity of existing large metropolitan areas.

Slide 7

growth units as an expansion of smaller existing city

Nor are we unmindful of the problems of small town America. The growth unit scale could be used to provide logical and gradual expansion of the smaller cities and towns in our nation, those of perhaps the scale of 50,000 persons. This would then provide further opportunity for upgrading and providing more economic opportunities within the non-metropolitan centers of the country.

Slide 8

the growth unit in rural America

Finally, conceptually, we can see the use of growth units to establish functional centers within the impoverished rural areas of our nation. All of the above slides have to do with the expansion

of opportunities for where one wishes to live. We must also recognize that we should provide for a rich variety of life styles, so that we may give our citizens the opportunity to live how they wish. Perhaps one could refer to these as appropriate arenas for the pursuit of our individual and group happiness, recognizing further the great and rich variety that there is within our society today.

Slide 9

a convention suburban development

The possibility of providing a style that would not be that different from the existing low density patterns of suburban America to the other extreme of a high density urban growth unit.

Slide 10

high density urbanization

Slide 11

growth unit in center city

The map of Baltimore with the red spot in the core showing a growth unit there.

Slide 12

growth unit in the suburbs

Slide 13

a new town site

To recapitulate, we could provide a growth unit at the very heart of the metropolitan area and expect it to be inhabited partly from within the inner city and also partly from the suburbs. At the same time in the suburbs we would provide a new growth unit under the principles of open occupancy as we recommend in our Report, and again expect movement to that from both the inner city and the suburbs. And, simultaneously, we could be putting in the first new neighborhood of a large new town on the outskirts of a metropolitan area. With this kind of three-barrelled simultaneous approach, the movement of the existing population, both inner city and suburban, would create opportunities such as those illustrated on the next three slides.

Slide 14

playground in the
inner city

Slide 15

activity center in the suburbs

Slide 16

first residential community of
a future large new town

By the movement of the population toward these new and better communities and neighborhoods we would then be able to go into the inner city and provide appropriate amenities for the older and worn-out areas.

Slide 17

activity center Stockholm

We could by the development of growth units in the suburbs create the opportunity, in time, for providing activity centers or many downtowns such as this (slide).

Slide 18

diagram of public armature

While we recognize the opportunities for using many governmental devices such as zoning for carrying out such a plan and program, we believe that the most important area for implementing this plan and program is the design and the timing of public infrastructure. By this we mean the armature, the utility corridors if you will, including highways, other modes of transportation, all utilities, and facilities for providing educational and social services. This sketch indicates the principle, that is the careful timing and planning of the public investment in this armature in ways that create the desired urban development pattern. In this way one can provide opportunities for the

new neighborhoods that we have discussed. One can decide where to build and where not to build. Today, all too often this public investment simply follows haphazardly the initiatives, both private and public, that are occuring within no strategy and no plan.

Slide 19

press conference

We, the American Institute of Architects, are working hard to have our recommendation considered and, hopefully, adopted in legislation such as that before you. Since the publication of our National Policy Task Force Report a year ago January, we have conducted a number of press seminars such as that illustrated in this slide for the purpose of informing the press, and therefore the public, of the recommendations that we are making. With the support of the Ford Foundation, we held a conference at Harvard last winter. This conference was aimed at a "real world" critique of our national policy recommendations. I might say that our recommendations have stood up very well under the testing of this kind of conference and exposure to the lay and professional public. And, more recently as a result of this conference,

we have put together a coalition, the coalition that we referred to in our opening statement.

Thank you for your attention.

Senator STEVENSON. The next witness is Mr. Edward Logue, president and chief executive officer, New York State Urban Development Corp.

Mr. Logue, I say to you what I say to all the witnesses. We are short on time. You are welcome to proceed as you like but we would be glad to enter your statement in the record if you care to summarize it.

Mr. LOGUE. Senator Stevenson, I will do the best I can to do that if I may have the full statement put in the record.

Senator STEVENSON. The statement will be put in the record.

STATEMENT OF EDWARD J. LOGUE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEW YORK STATE URBAN DEVELOPMENT CORP.; ACCOMPANIED BY LEE GOODWIN, COMMISSIONER, NEW YORK STATE DIVISION OF HOUSING AND COMMUNITY RENEWAL

Mr. LOGUE. My name is Edward J. Logue and I am president of the New York State Urban Development Corp. I have with me Commissioner Lee Goodwin of the New York State Division of Housing and Community Renewal and we are here representing not only our agencies but the official position of the State of New York.

We are pleased to have this opportunity to come and comment on this legislation. We would like to begin by pointing out that we are in, and, in a sense, the committee is in the unusual position of not having an executive position made clear, at least on the housing subsidy components of the legislation. This stems from the apparent abandonment of previous administration positions and, so far, no indication of a new position. It is our judgment that this is not the year and certainly not the time for the State of New York to seek out brand new departures in housing and community development legislation.

We think—and I have testified to this in various ways before this committee over many years—that the basic problems in the housing and community development programs of the United States stem from a lack of commitment and, above all, from a lack of funding; and so we are not here with any new and radical ideas. Our testimony will attempt to be responsive primarily to the provisions of S. 2182. I would like to say that generally it appears to us to be a very flexible bill that builds on the progress which has been made to date, and we would be happy, with one or two exceptions, to see it enacted as is.

First, may I say that I am sometimes concerned that there may be a feeling in the Congress that the moratorium declared on January 8 by Secretary Romney on behalf of the administration has been something that we have learned to adjust to and accept quietly and peacefully. Nothing could be further from the truth. The way in which the moratorium was launched and the way it is being administered has made this stiff medicine come to be felt slowly. The impact was not immediate but I can tell you with just three statistics how our agency will be affected. We have managed to put into construction in 5 years of existence some 32,000 units, almost 90 percent of them 236 units. Last year our production reached 12,000 starts. This year we will be lucky to get half of that.

As Commissioner Goodwin can detail, the State division started 2,000 units last year and in 1973, so far, has done only 270. In the

private FHA-insured loan section, despite what seemed to be indications by Secretary Romney in his text at Houston, the pace has not been maintained. There were 4,236 private FHA-insured starts in New York State in 1972, and in the first 6 months of 1973 that number is down to 231. This is really a shocking drop in housing production when absolutely nothing has changed on the demand side or on the need side.

It's all there, and I can say safely, I think, on behalf of the State of New York, that if the funds were available, we could not only readily meet all of our last year's targets, but quickly exceed them.

So we would like to ask this committee and the Congress to urge the administration to lift this moratorium. To hold the people in America who desperately need this kind of housing at ransom while the Congress and the administration attempt to restructure the entire housing policy of this country could lead to very troublesome consequences. It could have a particularly serious impact at the State level of government.

There are already active State housing agencies which are in the business of issuing State-backed housing mortgages, and there are 15 other States which have passed enabling legislation. We are in a new wave in housing and community development that is parallel to the early creation first of housing authorities, and then of local redevelopment authorities. To shut these State agencies off at this early stage in their blooming does violence to our Federal system. For all of this to be held up while this conflict of views is resolved seems to us most unfortunate.

Next, we would like to see the Congress reaffirm the housing goals set forth in the Housing Act of 1968—particularly the 10-year level of 6 million units of housing for low- and moderate-income families. The 236 program's proper share of that is, we estimate, a million and a half units in 5 years. The production of 236 housing has been on the average only 100,000 a year and we would urge that it go up to 200,000 a year in order to meet this goal.

I have not seen, or may just not be aware of any effort on the part of the Department of Housing and Urban Development to respond to the reporting requests which the Congress made in the 1968 legislation. Regular HUD reports would have given us a much better year-by-year appreciation of how we are doing in meeting the 1968 goals. We were now behind schedule. Rather than impose at this difficult time more ambitious goals, I think we in New York would be pleased indeed if the goals were reaffirmed and funded. There is still time to play a little catchup ball and meet those targets by 1978, only 5 years away.

We at the State level are funding the overly detailed Federal administrative rule in housing particularly burdensome. I don't think there is time this morning to tell some of the tales of dealing with Washington, but I will say the 236 program has, year-by-year, gotten more cumbersome in the administrative requirements which are dealt out from the central office. We believe that while there may be a real opportunity for local government, there is an interesting and, to me, very important new trend, in the assumption by States of responsibility for housing and community development.

I think New York State has led in this, as it has led in so many other things. Illinois, Michigan, Ohio, Maryland, Pennsylvania, Massachusetts, and Connecticut are also increasing the State's role here and if I may say so, Senator, I do not think that S. 2182 gives the proper opportunity to the State level to assume greater housing responsibility. However, I should like to emphasize that the States should not be asked to take on greater financial responsibility. The bulk of the taxpayers' money still comes down here to Washington. As long as this is true, we would like to get the subsidy moneys that are required for housing from the Federal Government.

We are particularly concerned—and this is our only important negative comment about S. 2182—about section 9, whose purpose it is to set forth the allocation of housing assistance appropriations. This section appears to follow somewhat from the concepts of local revenue sharing and general revenue sharing. From our point of view, section 9 cuts out or diminishes to an insignificant role the State level of government. In this context I think it is important for the committee to understand that in New York State over 50 percent of the total 236 production—including that done by the private sector—has been built by the two State agencies represented at this table this morning.

That would not be possible to continue under section 9 of S. 2182, as we understand it, particularly section A, subparagraph 1(c).

I doubt very much that there is any intent to discriminate against the State level. Section 9 may grow out of a lack of awareness of the newly important role that States are playing. Its enactment would have very serious and adverse consequences.

Now, the survival of the State Division of Housing and Community Renewal and the survival of the New York State Urban Development Corporation perhaps should not be matters of consequence to this committee. But our joint capacity to produce housing for low and moderate income families more quickly than is being done anywhere else should be of interest to the committee. At the very least we should like the committee to consider the kind of hold harmless provisions which are in the general revenue sharing legislation.

Senator Stevenson. If I may interrupt, you are referring to the provision in S. 2182 which allocates 10 percent of housing subsidies to State chiefly for use in nonmetropolitan areas?

Mr. Logue. That's part of what I am referring to. I am also referring to page 17 of the bill, the provision that says from the amount allocated for each metropolitan city the Secretary shall allocate one-half for that city or its designated public agency for use in implementing its housing plan. We believe, and it is the position of the State of New York that if the legislation is going to require the submission of housing plans to the Secretary for his review and approval on a 3-year basis, it is a sound idea that you should let the States determine how that should be done under State enabling legislation. The Secretary would retain the right to refuse to approve legislation which he felt was discriminatory. But frankly, S. 2182 has proposed a great excess of fine tuning of housing subsidy allocations. With many years now of local experience, I have seen many cities of the same size and same condition have totally different responses to their housing needs. I would hate to see housing funds automatically set aside for municipalities which had no serious interest in using them when there happened

to be other municipalities or States with serious and effective agencies and political leadership that wanted to do something meaningful about the housing problem.

The next point that we would like to cover concerns local tax impact assistance. The bill provides—and I'm sorry, Senator, I don't have the particular section and page before me—for, in certain situations, the Secretary make public housing funds available to pay full taxes rather than 10 percent of shelter rent.

In our experience in New York State, we have found outside the city of New York, the largest and most important objection to the location of subsidized housing is the failure of this housing to pay the full local property tax. The property tax, in my judgment, is responsible for bearing an undue proportion of the cost of operating local government. Given the smaller universe of local government to view it from, tax abatement looms much larger in the smaller cities, villages and towns than it does in a place like New York City, or for that matter, the State.

We feel that the experience we have had is shared elsewhere. If there is a desire on the part of the committee to see that housing opportunities for low- and moderate-income families are made available outside the central city, I would respectfully suggest that nothing you could do would be more important than providing the kind of local tax impact assistance stipulated in S. 2182.

I would like to comment briefly on the 236 program which is the bread and butter housing program for low and moderate income people in this country today. Section 236 is a popular program. We could easily, in the State of New York, double the amount of housing of this kind that we could put into construction next year if the funds were available. We believe it is a sound program and we would like to emphasize one aspect of it which is clearly permitted by the present law and which is encouraged by S. 2182, but which has been considerably damaged by the administrative action of the Secretary last year. I refer to the amount of rent supplement units which may be placed in any given 236 project.

Under the present law, it can go up to 40 percent. This, Senator, is to me and to many of us, not a matter of economics. It is a matter of how in America are we going to find acceptable ways, politically acceptable ways, to house low-income families. I think you will be interested to know that the 100 or more local housing authorities outside New York City in New York State put under construction less than 500 public housing units for low-income families.

We, in the Urban Development Corp., were able to put under construction 1,800 units for low-income families outside the city of New York—and an equal amount, by the way, inside the city of New York—last year.

Now, if we can house 3½ times as many low-income families as 100 local public housing authorities, it seems to me that says something. The way we do it is not magic. It is very simple. We have a formula which we call 70/20/10—70 percent of our 236 units in a given development are occupied by moderate-income families; 20 percent by low-income families; and 10 percent by the elderly. In that way, the amount of local objection to housing for low-income families is, I assure you, sharply minimized.

Where we have had problems—and we have had problems in places like Westchester—the problems have had to do with the suburbs and the suburban notion of whether any kind of tax abated housing is acceptable. That is a whole separate subject which could take an afternoon. But here we are in a position to triple the rate at which low-income families could be housed in the State of New York. We have the capacity to put those families in an economic, political, and social setting which is to their advantage. I think we have in America learned that despite what the institutional lobby in behalf of public housing may say, there is enormous resistance to the location of new family-type public housing-type projects across this country.

Now, with the willingness to do it, with the ability to do it, and with the capacity to expand it, we find that the Department of Housing and Urban Development has shut that program down from 40 percent to 10 percent low income units in a 236 development on allegedly economic grounds. I would hope that the committee will consider, when it writes its report on this legislation, some language advocating this aspect of the rent supplement program as a means of housing low-income families in a way which will be useful for them, which will help them move into the mainstream rather than isolating them. This is something I hope the committee adopts as part of a sound national housing policy.

In short, I would hope that the committee and its staff might consider, if the New York experience has any national relevance—and I think it does—whether the best way of housing low-income families is not through the 236 rent supplement program instead of continuing to dribble new public housing starts.

The 236 program has had its full share of criticisms and I would like to say that I consider those criticisms wildly exaggerated. Only a tiny percentage of subsidy funds have been misused or abused and I think it should be of acute interest to the committee to note that the problems which have existed have not come up in State housing programs using 236. In fact, as our State housing commissioner reminded me the other day, the State's role in housing in New York State goes back 47 years and the State of New York has yet to foreclose on its first housing mortgage. It may be that we are doing something right.

There have been complaints about the high cost of 236. I think that we must recognize that if we are to provide housing for families with the greatest need in a way that they can take advantage of it, we are talking about what has come to be known as deep subsidies. There is no way to do it in this country or any other country without so-called deep subsidies. In fact, the problem is, in a sense, a tribute to this committee, the House committee, the Congress and I think, to be fair, to Secretary Romney. I say this because, for the first time, we began to get quantitatively significant production of low- and moderate-income housing. I regret that the response to this record production was not cheers but, instead, the moratorium.

Another problem that we and, I think, all people dealing with 236 have, is the very thin band of income eligibility which is possible under the present law. With taxes and inflation what they are today, we think that there are ample grounds for reducing the 25-percent limit to 20 percent and we would like to urge that upon the committee.

Coming to the end of my comments on 236, the chart which I

passed to you, Senator, is intended to deal with the concern that many have expressed about the cumulative costs of the program. Now, if it is accurate to say that there are deep subsidies required, then the question is: Are we ever in America going to be able to afford to front end that expense or are we going to try to postpone the impact as long as possible, which is clearly what the 236 program intends to do.

I think this is an important and a difficult question and that the committee ought to study not only the experience in the United States but the experience in other developed countries. Yet in the meantime, we suggest that the 10-year housing goal expressed in the Housing Act of 1968 should be reaffirmed. The point is that if there are 450,000 236 units as of June 30, 1973, that means that to do its fair share within the time frame set by the Congress, there should be 200,000,236 units a year for the remaining 5 years of the 10-year period. That comes to $200 million figuring $1,000 per unit. It is much higher, of course, in New York State than it is in the Southwest, but that is something we all have to live with.

The impact of what has been done to date and what must be done to carry out the full congressional mandate would be a maximum Treasury annual commitment at the end of the period of $1.5 billion. It was the Congress judgment in 1968 that these goals would go a long, long way toward meeting the Nation's needs for subsidized housing. Whether that is true or not none of us know today. But I suggest that S. 2182 goes further and recommends larger appropriations (page 60); it is actually proposed to go up to $300 million on July 1, 1974. I think we in New York would cheerfully settle for 236 contract authority for $1 billion for the next 5 years now and know that we had it. This stop-and-start business which is characteristic of the Federal Government's role in housing and community development adds costs to local governments, State governments, and to the Federal Government and makes continuous programing very difficult indeed.

We think $1.5 billion is a modest cost to the Treasury for the good it would accomplish.

We also hope that the committee will seriously consider the experimental proposals in S. 2169 and S. 2179 which provide for direct Federal financing. I hope that the committee will consider undertaking a study of the various forms of financing which might be available. For example, there is an enormous reservoir of investment money coming into the market every year in the form of pension funds which perhaps could be attracted, in one way or another, to investment in housing.

I would urge the committee and its staff to study seriously the 236 and 221(d)(3) projects which are in difficulty and see if it is not possible to create statutory authority to convert those projects from rental projects to homeownership projects. We believe that homeownership is the best housing solution that has been developed—and it has been developed to a greater extent here in America than anywhere else in the world. We hope that the troubled projects might be given that alternative.

I would like to say a final word on the subject of rehabilitation. Rehabilitation must be done as part of comprehensive neighborhood renewal and not just limited to mortgage financing of housing reha-

bilitation. Indeed it is a tool which must be made available on a comprehensive basis if the enormous supply of originally decent housing in our older cities is to be maintained.

Senator, I would like to conclude by saying that in the dozen years or more that I have, from time to time, come before this committee it's been my experience that this committee has produced and the full committee has approved flexible, forward looking, and liberal legislation. If legislation approved by this committee had been fully concurred in by the Senate, by the House, and by the administration, it would have taken us a lot further than we are today toward the solution of the problems of housing and community development. I would hope that the committee would not get discouraged by the current impasse and get this bill out on the floor before September 7.

Thank you.

Senator STEVENSON. I expect by the end of next week, Mr. Logue, the Congress would have placed on the President's desk a bill extending all of the FHA programs and either in the bill or in conference committee language the Congress will also encourage the President to implement those programs.

What effect will the high interest rates have on housing starts in New York and do those high rates reinforce the need for the subsidized housing programs 235 and 236?

Mr. LOGUE. They certainly do. They are going to have, in my judgment, not only in New York but everywhere, a very serious adverse impact. As you know, the interest cost is an enormous percentage of the monthly tab that the rent payer or the mortgagor paying off the mortgage has to deal with high interest rates make the subsidized housing program much more necessary and suggest that although the subsidy to percent is highly desirable, that perhaps the committee should consider a flexible subsidy. Low-income families up to this level are theoretically being taken care of through rent supplement and public housing and then through the 236 program. There is than an enormous gap where lower middle-income families are ineligible for any program but find themselves utterly unable to enter the new housing market.

Senator STEVENSON. You mentioned the need to develop various new forms of financing for housing. I was a State treasurer before coming to the Senate and as such had roughly $1 billion of State funds to invest for the State. We developed what became a highly sophisticated system for the investment of that money which not only maximized the interest return on it for the State but also channeled it through the banks into various public needs, including the financing of the construction of housing, principally the construction financing of 221(e)(3) housing. At the time it seemed to me this was a useful way of providing short-term financing for various public needs, including the construction of housing, and that traditional possibilities existed including long-term financing for housing through principally the investment of the pension plans managed by State.

I assume other States are similar to Illinois. The State had enormous sums in its pension funds, none of which had at that time—and I suspect since—ever been invested in real estate or mortgages. They might have been invested in a way that could not only have reallocated private sources of credit and provided for more housing, but also in ways

that would have benefited the beneficiaries of those funds, a higher return and a very secure investment.

We have talked about the need for Federal financial assistance. I think there is a lot more the States could be doing. Has the State of New York developed any proposals along this line, along the line that I tried to start in Illinois, including the investment of pension plans?

Mr. LOGUE. Senator, I think we would have to admit that these funds are entirely in the charge of an elected State official who is the comptroller of the State of New York and is a very able and distinguished public servant. His view of his responsibilities is to maximize the return to the fund. There has been not only no investment in housing for low- and moderate-income families of any nature that I am aware of, but only a very limited investment of any kind in projects which have a public aspect.

It seems to me that this is something which is worthy of very serious exploration and where the Congress can properly say to the State level of government that you have a responsibility to channel some of this investment into your own States. It seems to be absurd for us to be putting pension funds into investments elsewhere when our own industrial economic base is not only not growing, but in many respects declining.

Senator STEVENSON. Perhaps I should give you a study conducted at my request with the financial support of a New York foundation, Ford Foundation, which concluded that our system for the investment of public funds could not only meet the public needs such as the public need for decent housing, but also maximize the financial return to the State government. It comes back not only in high interest but also in increased sales, income tax receipts, through economic development and human growth area. If you would be interested, I just might be able to find a copy.

Mr. LOGUE. I would be very interested and I think Lee Goodwin and I would like to perhaps create a little lobby back home and see if we can't get a broader interest in it.

Senator STEVENSON. If there is any way that you can think of that Congress could help to develop such plans—the Federal Government is guilty of it, too. It doesn't invest its own tax loans that way.

That buzzer signified another rollcall so I thank you both very much. I will have to now recess the hearings long enough to give me a chance to answer that rollcall.

[The complete statement and Mr. Logue's answers to a question from Senator Brooke follow:]

Testimony of Edward J. Logue, President of the
New York State Urban Development Corporation
before the
Senate Sub-Committee on Banking, Housing
and Urban Affairs

10:00 a.m.
July 27, 1973

Room 5302
Dirksen Senate Office Building

It is with great pleasure that I return once again to your Committee to testify on pending housing and community development legislation.

I am here today speaking on behalf not just of the New York State Urban Development Corporation but of the State of New York and the administration of Governor Nelson A. Rockefeller. I have here with me Commissioner Lee Goodwin of the New York State Division of Housing and Community Renewal.

The questions of housing and community development are as important as they were when I first testified here more than a dozen years ago. These programs have so much to do with the quality of life of the American people and with the social and economic health of society. I remain hopeful that one day they will receive the level of commitment and priority at the national level that will yield the results we all in principle agree on.

This year we are unusually handicapped by not having a statement of the Administration's housing position. We understand it will not be forthcoming until early September.

It is possible for all of us in New York and certainly around the country to think of many new approaches to solving the housing problem. In fact, the history of housing legislation in our country has been one of never-ending administrative and legislative changes.

Under this year's special circumstances, we have refrained from proposing totally new schemes for providing the federal housing subsidies which are so clearly essential to the achievement of the goals of the Housing Act of 1968.

My testimony will attempt to be responsive primarily to the proposals made by S. 2182.

The Housing Assistance Moratorium

First, however, a preliminary but vitally important comment must be made about the January 8 moratorium announced by the Administration. The moratorium has had a serious and adverse impact on New York State's ability in both the public and private sectors to provide urgently needed housing for low and moderate income families.

In its five years of existence, the New York State Urban Development Corporation has, starting from scratch, managed to start construction on 32,200 units of housing in 106 projects in 46 municipalities -- enough units to house the total population of New York State's capital city of Albany.

However, I want the Committee to know that the moratorium to date has had a serious adverse effect on UDC's capacity to maintain its previous production levels. Of the 32,200 units started by UDC, 28,400 have involved 236 assistance; 1,800 units are public housing turnkey projects, and 2,200 units are limited-profit housing marketed with UDC financing.

In calendar 1972, we were able to begin construction on 12,000 units of urgently needed housing. In 1973, until and unless we receive federal FY 74 236 monies, our production will be cut by at least 50%. We will start less than 6,000 units. This is from an agency which is fully able, if federal subsidy funds flow, to exceed in 1973 its 1972 production accomplishments and thereby provide at an unprecedented scale quality housing for people who simple cannot afford decent, safe homes at the present market rate.

The situation is much the same with respect to our sister agency, New York State Division of Housing and Community Renewal, which also administers a state housing program. In 1972, the Division started construction on some 2,000 dwelling units. Yet in the first six months of 1973 only 270 units were placed in construction.

In the private FHA insured loan section, the facts are equally instructive. About 4,000 Section 236 units were placed in construction in 1972. However, against the backdrop of the moratorium, only 231 units have been started in 1973.

The situation across the country is much the same.

We think that the imposition of the moratorium is regrettable indeed. Not only does it have serious adverse impact on this year's housing production. Much more critical is its effect on the housing pipeline. As the Senators know, instant housing is something we have not been able yet to devise in America. The realities of the pipeline are unavoidable, and the pipeline is drying up.

As our tools for serving lower income families have been limited by Washington, I think we are witnessing the diversion of resources to other uses which may be hard to reverse. A genuine loss of momentum has afflicted the ten states which have on-going housing agencies and the fifteen states which have already passed legislation to create housing agencies.

I would urge that the Congress, the Department of Housing and Urban Development, and the Administration attempt to get together to lift the moratorium immediately, and make up for lost present and future production.

We believe there is a realistic awareness of the difficulties with the present housing programs, not only in the Administration but in the Congress, in the industry, and among state and local agencies. But there is no reason to hold up housing production until new measures are adopted and all of the difficulties done away with. That could take a long, long time.

National Housing Goals

We would like to address ourselves briefly to national goals, since it is important that housing and community development legislation be considered in the appropriate context.

The Congress in 1968 reaffirmed the goals of a decent home and a suitable living environment for every American family and determined that this goal could be achieved within a decade if we committed our resources to the construction or rehabilitation of twenty-six million dwelling units, including six million for low and moderate income families. With the advent of the Section 235 and Section 236 programs, we have moved impressively toward the achievement of these goals.

I would urge that we reaffirm these goals as the continued objective of any new or revised housing program to be

adopted by the Congress. Moreover, I think it would be timely to consider these goals within the context of the provisions of the Land Use Policy and Planning Assistance Act in order to achieve rational and efficient land use.

The Role of States and Localities

We would urge you in these hearings and in your deliberations on this legislation to consider particularly the role of the states and their ability to act in concert with units of local government.

We believe that there is a great opportunity this year to direct increased responsibility to the state level of government. The example of New York State is perhaps instructive. Over the last 47 years, the State Division of Housing and Community Renewal has been responsible for 143,637 units of low, moderate, and middle income housing. In its brief five year history, the New York State Urban Development Corporation has added 32,200 units to that total. In that time, there has never once been a need to foreclose a mortgage on a State sponsored development. That is a record we are proud of and one which, we believe, supports our call for increased state responsibility in this field.

There is growing concern at the state and local levels that the federal government may have become too rigid, too bureaucratic, and too unresponsive in developing housing policies, programs, and projects. There is no denying that there may also be problems in allocating resources within a state. But those problems can and should be worked out within the states themselves. The much tougher problem is avoiding federal rigidities which can dampen state and local initiative and hang up programs for endless months.

Allocation of Subsidies

In the context of increased state responsibility, I am deeply concerned by the concept, introduced for the first time in S. 2182, of allocating subsidy appropriations in minute geographical detail, and reserving for state or regional bodies a mere ten percent of the subsidy funds to be used primarily in non-metropolitan areas. In New York State the bulk of subsidized housing is built under the aegis of state agencies. The record of housing production in New York has proved the merits of this procedure.

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Strengths of the 236 Program

An unprecedented output of near 1/2 million housing units has been produced in the four years since the inception of this program in 1969. It took nearly 30 years for the Federal government to produce a similar volume of public housing.

Section 236 is a popular program with a high degree of acceptance in most communities. Our experience is that Section 236 has been welcomed in communities ranging from fewer than 500 persons to New York City with its nearly 8 million persons. The program permits economic as well as racial integration because of its mixture of moderate and low rents, the latter through rent supplement funds.

UDC's Section 236 program, structured on the basis of 70% moderate rent, 20% low income-rent and 10% low-rent elderly families, has been accepted from one end of the State to the other.

This mixture allows a substantial number of low income families to secure safe, sound housing in a stable development -- surely an attractive alternative to the concentration of poverty and social disorganization often found in large public housing projects.

The device which allows us to allocate 30% of the units in a 236 development to low income families is the federal rent supplement program. Unfortunately, the Department of Housing and Urban Development last year restricted the number of units which may go to rent supplement families to ten percent. We strongly suggest that this reduction in rent supplement funds sacrifices the socio-economic mix we have found so successful and leaves low income families and elderly people no choice other than public housing projects. We endorse both the concept and the language of S. 2182 on this subject, which would eliminate the present gap in eligibility limits between the rent supplement and 236 program and permits a desirable degree of administrative flexibility.

In fact, I would go further and ask the committee seriously to consider rent supplement units in a 236 development as a substitute for the old style public housing projects occupied entirely by low income families.

It is a well known fact that local resistance to family oriented public housing projects has slowed production down to a dribble.

It could be argued that abandoning construction of such new projects as could be built would reduce further the supply of decent housing for low income families.

UDC's experience would indicate quite the contrary.

The 100 odd local public housing authorities in New York State outside New York City produced no more than 500 units of housing for low income families in calendar 1972.

In the same year UDC, using the 70-20-10 approach, i.e., 30% low income families in a 236 project, was able to start construction of more than 1,800 units of housing for low income families.

Put another way, we were able with an absolute minimum of local resistance to start housing for three and one-half times as many low income families as all of these local housing authorities.

That may have some national significance, not so much about UDC, as the concept of the greater acceptability of low income housing if it is part of a larger program of moderate income housing.

As pointed out just above, our progress in this regard has been jeopardized by the federal administrative determination to reduce rent supplements to ten percent of the units in a given project.

Problems in the 236 Program

It is no secret that wide-ranging criticism has been leveled at the 236 program. It is important to recognize that only a tiny percentage of subsidy funds have been misused.

Other complaints have been recorded about the high subsidy cost of the 236 program. Much of the high cost is inherent in the massive scale of output: about 450,000 236 units have been placed under construction since 1969. Never in the history of government assisted housing in this country has production reached anything like this rate. If America is going to provide a high volume of housing for low and moderate income families, substantial federal expenditures are unavoidable.

Another important component of these costs lies in the simple but hard fact that bringing down rents of new construction to a level that moderate income people can afford requires a very substantial subsidy.

We can increase the volume of housing per subsidy dollar if we introduce greater flexibility in the income limits of families to be served rather than rigidly limit occupancy to families with the least capacity to afford rents to occupy such housing.

In this context, S. 2182 defines as lower income tenants those whose incomes do not exceed 90% of the median income for the area with adjustments at the discretion of the Secretary of HUD. This is another step in the right direction which we endorse.

Another aspect that creates difficulty is the statutory requirement that families pay at least 25 percent of their income for rent. Families of moderate or low incomes, particularly those with children, usually seek to keep their rents below this ratio, given today's high taxes and cost of food, clothing and education. In fact, in 1970 only 23% of all renter families in the U.S. with incomes between $4,000 and $10,000 paid as much as 25% of their income for rent.

We would suggest as a useful step in alleviating this problem that the $300 per child allowance used in computing adjusted income be increased to $900 -- a more realistic recognition of this element of family living costs. Additionally, as a tenant's income increases, we would recommend that the increase in rents be set at 20% rather than the 25% increase in income. This would encourage these families to remain in their apartment and would improve the social stability and economic viability of these developments.

Finally, the combination of relatively tight income limits and the limits upon insured mortgage amounts imposed by the statute frequently results in a very narrow range of eligibility for 236 housing. It would be helpful if the Congress, as proposed in S. 2182, permitted the Secretary of HUD administratively to adjust insured mortgage limits so that they have a more realistic relationship to the cost of producing housing in a given community.

Similarly, it is important that the urban renewal program continue to be funded so that the constantly rising costs of land in our communities can be brought down in order to permit the 236 program to function effectively.

Section 235 Program

Many of the comments made about Section 236 apply to the Section 235 program as well. Nationally we have obtained very significant output of new single-family ownership housing under Section 235. However, examination of the distribution of 235 housing shows that a less than proportionate share has reached the New England and Middle Atlantic states. This is attributable to excessively low mortgage limits per units which have made this program difficult to take advantage of across New York State because of high construction costs.

In eight smaller communities in the southern and western tier of New York, the number of 235 units produced in fiscal years 1969-1971 was 67; in FY 1972 the figure was six and in FY 1973 it fell to zero. The reason was that such units could not be produced within the stated mortgage limits. To the extent that Section 235 units have been produced, we find that low income limits of the program tend to restrict purchase of this housing in many cases to families whose incomes are too low to properly maintain even new housing in sound operating condition.

S. 2182 meets many of these problems. One further change which will greatly strengthen the program, and bring it into line with the 236 program, would be to expand the category of assisted housing to include state and locally aided projects. Under the present provisions, only federally-insured mortgage loans are eligible for assistance.

Cumulative Costs of 236

We have enough experience to begin to quantify the total overall costs to the federal government of the 236 program. We can also make some estimates of what the price tag of this approach will be as we enter the second five years of the ten year time frame set out in the Housing Act of 1968.

The existing cumulative commitment of the federal government for Section 236 is about $450 million per year as of June 30, 1973. If we are to build 200,000 units of 236 housing per year -- a reasonable objective quite within the scope of the goals set out by Congress in 1968 -- it would add about $200 million per year to the cumulative commitment. If this is carried through for the next five years, the annual cost to the federal government by 1978 for the 236 program would be about $1.45 billion.

We firmly believe that this is an amount that the country can afford.

To sum up, we think that until there is a serious study of alternative forms of subsidy and alternative sources of financing, we should improve and make more flexible the 236 housing program and the 235 housing program. These programs have worked well during the first five years of the ten year housing goal period and we urgently recommend that they be continued as the basic form of housing subsidy in the remaining five years.

Of course, we fully support the careful consideration the Committee has been giving to alternative approaches to housing families for whom the open market place does not work. We particularly endorse S. 2169 and S. 2179 which provide for direct federal financing of low and moderate income housing and housing for the elderly. We believe that any such federal direct loan programs should be administered in tandem with existing state and local housing finance efforts.

I would also like to endorse today bloc grants as a supplementary program to support the construction of low and moderate income housing.

In many cases we could build a much better project, or overcome a barrier to building any project at all, if we could apply grant funds to reduce land costs or alleviate the adverse financial impacts of projects on their neighborhoods. Often projects must be carried out concurrently with other development in the vicinity, particularly in rural areas which lack the basic water, sewer, electrical and other public services to support housing, and in central city areas where rehabilitation of decaying units and new construction can only succeed when supported with the new community facilities which instill a greater sense of neighborhood confidence.

Basically, as I have said, we should improve, but stay with, the established devices of the 236 and 235 programs -- not change horses in midstream, five years through the ten-year program called for by the 1968 Housing Act. Still, I would suggest we at least take a partial step toward giving greater flexibility to state and local governments to meet housing needs by instituting a concurrent program of bloc grants for housing support.

Such grants would be made available by HUD to state and local agencies administering programs for comprehensive area or neighborhood wide housing development. They would be usable by such agencies for a wide variety of housing support activities, including those I have mentioned: land writedowns, infrastructure and community facilities. This is not a no-strings attached fund, but the strings will look to performance - not to functional categories. The guiding principle should be to keep federal regulations at a minimum so that local solutions to local problems can be allowed to emerge.

Two final issues which I would like to touch on briefly are home ownership and rehabilitation.

Home Ownership

About 64% of American families own their own homes. We believe that over the long pull this is the optimum housing solution. We would urge that with whatever initial steps are necessary or desirable to speed the production of needed housing, that encouragement and incentive be given for the conversion to the maximum degree possible subsidized housing, including existing subsidized rental housing, to a home ownership mortgage pattern.

Rehabilitation

A final word on rehabilitation. We have seen, particularly in the Northeast, the erosion of the quality of once standard housing at a speed and scale which is highly disturbing. We believe that the evidence is clear that high priority must be given to the salvation of such housing. However, it is equally clear on the evidence that rehabilitation of housing alone in a troubled or uncertain neighborhood will accomplish little. Basically there must be a new infusion of confidence in the future of such areas. Not only must mortgage financing be readily available on an insured basis, but there must be equal improvement in the quality of the environment and the level of public services.

We would also urge that rent subsidies should not be limited to new construction but should be made available to preserve existing housing in neighborhoods we are trying to preserve -- perhaps as rent certificates. This is surely an important element in any complete housing program.

To sum up, we believe that the country may be at a turning point in the housing field. In 1968, Congress adopted as a national goal the principal of a decent and safe home for every American and for the first time quantified that goal and set a time period for accomplishing it. Substantial progress has been made in achieving it but the commitment requires re-affirmation and adequate funding.

In the first years of this decade we had a good start, as a nation, in fulfilling this commitment. I think that this is the wrong time to cut off the programs that have allowed such progress.

We believe that the basic problems are the recent pullback in financial commitment by the federal government and the unnecessarily complex administrative restrictions that seem steadily to become more severe in the 236 program and other federal housing programs.

The need for the housing is there. The states and many localities are showing new initiatives and new determination in displaying a leadership role.

With Federal support in the form of adequate funding, flexible administration and maximum reliance on state and local governments, we believe the goals of the Housing Act of 1968 can be met.

ANSWER TO QUESTION FROM SENATOR BROOKE

Senator BROOKE: Would you advocate making the federal government "the houser of last resort" on cases where neither private developers nor local housing authorities have taken adequate steps to provide housing for low-income families?

Mr. LOGUE. I am deeply committed to the idea that the federal government should encourage the private sector and the state and local levels of government to take the initiative, hear the administrative responsibility, and to the extent appropriate share in the financial cost of urgent social problems, whether local or national in nature.

I think our society has moved a long way in this direction, but has still a distance to go, particularly for low income families and especially for low income families who have over a long time been victimized by racial or ethnic discrimination.

Until this policy is established by the federal government, the private sector and state and local governments are going to be able to continue to avoid their responsibility.

In the critical areas of housing, job opportunities, job training, basic education, and health, I believe the federal government should assert the responsibility and create incentive systems to see that other parts of the society take the initiative. In housing, particularly, with the apparently ever-raising cost of land, construction labor, construction materials, and the cost of money, the sheer financial ability to provide housing for low and moderate income families is rapidly diminishing. In addition, for lack of effective national policy, local governments across the country are opting out of any responsibility for housing low and moderate income families except in areas where such families are presently concentrated.

This non-policy has in effect become a policy. It not only reduces the supply of much needed housing, but it promotes a sense of apartness in American society which though I hesitate to say it, sometimes appears to border on apartheid.

Senator STEVENSON. The hearing will come back to order.

The next witness is Mr. L. B. Nelson, president of the National Apartment Association. I apologize, Mr. Nelson, for the long delay, and I thank you for your patience. There's not much we can do about it I'm afraid.

STATEMENT OF L. B. NELSON, PRESIDENT, NATIONAL APARTMENT ASSOCIATION; ACCOMPANIED BY JOHN C. WILLIAMSON, LEGAL LEGISLATIVE COUNSEL

Mr. NELSON. Mr. Chairman, my name is L. B. Nelson and I am an apartment house developer and builder for Menlo Park, Calif. Our company is national in scope. We build in many States throughout the country. We manage about 7,000 apartment units in the western part of the United States. I also am the president of the National Apartment Association, a trade association of approximately 30,000 apartment developers, builders, and operators, and I appreciate this opportunity to appear before this subcommittee.

I have a prepared statement which I will give you and won't dwell on all the details and will merely codify down what this statement says and bring it down to two main points which I believe are the most salient points.

Senator STEVENSON. I will enter your full statement in the record. Thank you for summarizing.

[Complete statement may be found at p. 1449].

Mr. NELSON. Also, on my left here, is Mr. John C. Williamson, our legal legislative counsel to our association.

One of the problems we have in the industry today—and I speak as a builder as well as the president of the National Apartment Association—is the on-and-off-again interest rate problem that we have had during the past number of years since I have been a builder, and that's been about 25 years. It's much more serious today, however, due to the fact that we are troubled by many, many problems that we did not have years ago. For instance, in many cities there's a no-growth idea. They are dezoning land in many areas.

For instance, if you have an apartment house piece of land, the city council in some cases has dezoned it down to agriculture. And you have the ecology problem; and while ecology is a fine thing, it is one of the big problems now that the builders are facing. We have more complicated and restrictive building codes, and certainly during the past several years we have had problems with the high cost of labor and materials.

And now we face the prospect during this year of an income tax change that, in my opinion, would restrict apartment house building and be extremely inflationary.

The main problem we face today, I believe, is in the area of interest rates and money availability. I will just give you an example of my own case. In the western part of the United States, we are the biggest borrowers of a large savings and loan institution, and naturally we have always felt that when money was available we would get first crack at it because we had been a good customer of this association over a long period of time. The other day the executive vice president came in and told me that they had no more money. He said that the window was just shut all of a sudden and that they had no more money for our company at this time and didn't know when they would have it available.

Now, no building company or no group of builders across the country can operate on an on-again, off-again situation. It is impossible. It is costly, and it is, in my opinion, going to be disastrous for the building business if we do not put an end to this.

The insurance companies today—that is, the large insurance companies—are primarily out of the housing market. They concentrate mainly on apartment houses; that is, large apartment complexes. They do not normally finance the individual housing. Whether there is a moral obligation for them to do so, which I believe there is, or not, is something for the Government to decide, I suppose. But nevertheless, the facts of life are that they are out of this business, so it revolves itself around savings and loans.

Now, when we have a problem as we have now with money shifting from one area to the other—and incidentally, this $1,000 certificate that they have now with no interest rate ceiling, in my opinion, can be disastrous because it will shift money from one association to the other or shift money from banks to savings and loans or vice-versa, and I think you are going to find that during the next year to 18 months, the homebuilding business is going to suffer some tremendous losses as far as number of new units go.

So our recommendation is that, first of all, that the Government in general does something about the on-and-off-again interest rates.

The recommendation to this committee is an area in housing that has been overlooked, or poorly dealt with and that is having to

do with rehabilitation of existing multi-family units. There are literally hundreds of thousands of units in this country that are available to be rehabilitated, but financing this is not available because there is no logical program to provide long-term financing.

In our own case, for instance, our company had made an offer to purchase a number of old 608 apartment buildings. We found after we had taken options on these that it was almost impossible to obtain long-term financing for the cost of these properties plus their rehabilitation.

I will give you an example. Up in Seattle, we had a firm offer and were ready to buy 550 units that were very rundown. The bank was managing them. It had to take the mortgage over. The location was good, but the units had been let go. About 20 or 30 percent of them were completely shot, but it had some real possibilities. We could rehabilitate those units cheaper than we could bring them from the start.

Now, we went to the bank and found out that no financing was available for this rehabilitation on any kind of an economic basis. We could get 5-year financing, but to get the 25-year financing, that was not available. So we shelved that particular program.

I believe if a plan was developed in which similar to the old 608 would allow and encourage builders to finance out 100 percent, you would have a lot of rehabilitation that you don't have right now.

I thank you for the opportunity to speak before you, and I would be glad to answer any questions.

Senator STEVENSON. The Federal Reserve Board did take some action yesterday to limit the amount of money that the banks can invest in what thy call the "wild cards," some limitation.

Mr. NELSON. Isn't it 5-percent or something like that?

Senator STEVENSON. It's 5-percent limitation.

Mr. NELSON. That's still a lot of money, though, and I don't think that's going to do the job. I think what you need is some way to pump money back into the savings and loans. It's very simple. The Federal Home Loan Bank Board could make more money available to the savings and loans by opening their windows again.

Senator STEVENSON. You overheard the last colloquy with the last witness, my remarks about one of the things I tried to do as a State treasurer. I did mention investment in savings and loans was also a good thing, as State treasurer, with the view of getting more money into housing through the savings and loans.

I have always had some doubts about the wisdom of a very restricted monetary policy as a means of controlling inflation. It would increase the cost of money. Those costs get passed on, and your housing costs go up. General Motors and the other corporations have to pay a higher cost for its money. Those increased costs get passed on to the consumer.

Mr. NELSON. That's the biggest single cost for the housing.

Senator STEVENSON. It's a very high cost, and what seems to be one of the dangers you face, without driving down cost, without controlling inflation, you invite recession and you invite unemployment or both, what we now call stagflation. We may be heading in this direction Again.

Mr. NELSON. You see, the problem that you have today, Senator, is that the leadtime for a building project now—it used to be roughly

6 to 12 months, but it's now 18 months to 2 years, because you've got all these environmentalists and everybody else haggling at you.

Now, when these present monetary policies finally take hold, you are going to find out that the building programs that had been planned have been scrapped because they can't be financed or there are more delays, and I think you are going to find out within 6 months to a year you are going to have a serious building stoppage in this country, which is in itself extremely inflationary.

Senator STEVENSON. Are your lumber prices coming down any? Do these decreases tend to offset the higher borrowing cost?

Mr. NELSON. No. They haven't come down very much, but they have stabilized, which is better than the runaway market we had. It has added about $1,500 to $2,000 per unit to a $35,000 house.

The problem that we have is that when lumber prices go down a little bit or stabilize, you have something else that hits you, like the interest rates or other building costs. Right now, for instance, we have a big problem with fire departments in many areas throughout the country. For some reason, they think that most multistory projects should now be sprinkled. We have to have sprinkling systems in low-rise projects that is adding a dollar a square foot to our total cost.

Those kind of problems are multiplied throughout the country. So when you add the interest on top of that, it's just dynamite.

Senator STEVENSON. Do you find your land costs are rising, too?

Mr. NELSON. Well, land costs have gone up some. However, land costs over the last 5 years have risen relatively a small amount. I'm speaking from a builder's standpoint. We find ways in which to cut the land cost down by getting higher density or some way in which to keep our costs down. For instance, our company has been paying $2,500 to $3,500 per building unit for land for the last 6 or 7 years.

Senator STEVENSON. You have stabilized that cost by going to higher density?

Mr. NELSON. That's right. You find ways in which to get around that, by going to higher density.

Senator STEVENSON. I wish, in addition to bringing down the interest rates, we could also find ways of redirecting population growth, giving people a better choice of where to live and encouraging development in areas where the land costs are lower, where the labor costs are lower, where the money is oftentimes available, the lower interest rate, where people can lead a better life.

Mr. NELSON. If you don't mind, I don't think you can do that through housing. I think that's got to be done, as the last witness said, through industry, and then the housing is going to follow that.

Senator STEVENSON. I agree with that.

Mr. NELSON. That would be an artificial way to try to stimulate a population shift, which I don't think will work.

Senator STEVENSON. Right. I didn't mean to suggest that.

Mr. NELSON. No. But I wanted you to have a builder's viewpoint that's practical, because a lot of people I've heard have a lot of theory, but I'm out on the firing line every day and I know the problems involved and I honestly believe, fully believe, that if you encourage financing up to 100 percent in some cases, if it's properly done and properly administered, you would have a lot of building of low-cost units that you don't have right now. You've got so many restric-

tions. We wanted, for instance, to build in the San Francisco redevelopment area. We were encouraged by a local government agency to do so. We had so many problems and governmental agencies to worry about that we just couldn't get to first base and gave up.

Senator STEVENSON. There's no question but many of the housing programs have been improperly administered with an unnecessary amount of redtape and with unnecessary delays. Many of the FHA offices just don't have personnel to process the applications. But we also face sloppy building, inadequate FHA inspection, noncompliance with local building codes, noncompliance with FHA's own housing standards.

Mr. NELSON. Can I make a suggestion there?

Senator STEVENSON. One of the suggestions that this committee has received was that builders have no incentive to build decent housing because they have no risks. The mortgages are guaranteed 100 percent by the Government. The suggestion is that to give them an incentive to build decent housing, they ought to share in the risk. How we do that I don't know. I suppose the thought would be that instead of the 100-percent guarantee, perhaps would be a 90-percent guarantee.

Mr. NELSON. I've got a suggestion on that. I don't know whether it will work or not, but I will give you a suggestion. I am basically in favor of giving a builder—a good builder now that is certified and is qualified to do FHA work a right to receive 100-percent financing. Because what's the difference whether you've got 87 or 93 or 100 percent if it's a bum project, it's a bum project all the way around.

So what I'm saying is give the builder enough money to build the project 100 percent and then make him or his corporation be on the hook for 15 or 20 percent of that mortgage as a guarantor so he or his corporation can't walk away. I don't believe in giving somebody 100-percent financing or even 90 percent and then let him walk away from it if it doesn't work out. I think that's wrong. But I think if he was on the hook, either on some kind of a continuing obligation you wouldn't have these projects coming back like you do now. The Government now owns thousands of them that have been foreclosed.

Senator STEVENSON. How would you do that? How would you place that continuing burden on him?

Mr. NELSON. Well, I would say that if a builder gets 100-percent financing and let's say the building project costs $1 million, you would make him responsible as a guarantor for that loan of up to $50,000 or $100,000. So if he walks away from it, it's going to cost him something. He can't just walk away from it.

For instance, in the 221(d)(4)'s, you can walk away from those projects. You don't have any personal liability. I would rather see you give more money but keep him on the hook for it.

Senator STEVENSON. Well, I think that's an interesting idea. The FHA now, of course, does have the authority to do that with an unscrupulous builder. In some cases, that authority is being used; in other cases, it isn't being used. I think your suggestion about the certification as one possibility——

Mr. NELSON. But you see, the black list catches the builder and the Government on the wrong end of things. It catches him when the damage is already done. This way you catch him in the front end and make him think more before he goes into a project.

Senator STEVENSON. Well, that's true. Some builders are repeatedly unscrupulous and after some period I suppose if you don't get certified you get on the black list. The suggestion is that the Government is going to guarantee financing 100 percent and afterward the project doesn't work out, then there ought to be some recourse by the Government back to the builder.

Mr. NELSON. Absolutely. I don't believe in a free ride and when you give 100-percent financing and you have no guarantees on it, naturally the guy is going to think I can walk away—if it doesn't work out, I can just walk away from it.

Senator STEVENSON. There could be tighter mortgage requirements, I guess.

Thank you very much. We have to move on.

Mr. NELSON. Thank you very much.

[Complete statement of Mr. Nelson follows:]

STATEMENT OF L.B. NELSON
PRESIDENT
NATIONAL APARTMENT ASSOCIATION
Before
THE SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
JULY 27, 1973

Mr. Chairman and Members of the Subcommittee:

My name is L.B. Nelson and I am an apartment house developer and owner with offices in Menlo Park, California although the activities of my organization are nation-wide. I appear today on behalf of the National Apartment Association, a trade association of approximately 30,000 apartment developers, builders and operators. I appreciate this opportunity to make some observations and render some opinions with respect to issues which are before this Subcommittee.

MORTGAGE MARKET

Before discussing specific legislation, I want to emphasize one fact -- that the current residential mortgage crisis of high interest rates and declining availability is the greatest that has faced housing and is, in my opinion, without parallel since the depression of the early thirties.

Remedies available in the past to shore up housing are apparently no longer available because of inflationary consequences. Nevertheless, we strongly urge this Subcommittee to take whatever steps are necessary to avert ruinous rate competition between mortgage-oriented thrift institutions and commercial banks. I refer specifically to the increasingly popular $1,000 4-year note with no rate ceiling issued by banks without limit and by savings and loan associations up to 5% of their assets. We concur in the views expressed by the National Association of Homebuilders on July 23 before this Subcommittee and by the U.S. Savings and Loan League in its recent public statement to end this wild bidding between banks

and thrift associations. Not only should Congress place a rate limitation on these notes, but should move to reassert the competitive rate advantage which, as a matter of national policy, has been enjoyed for several years by mortgage-oriented thrift institutions.

BLOCK GRANTS FOR COMMUNITY DEVELOPMENT AND HOUSING SUBSIDIES

We endorse the concept of special revenue sharing or block grants reflected in both S. 1743, the Administration's Better Communities Act, and S. 1744, which was incorporated in Chapter III of the housing bill which the Senate approved last year. We understand the essential difference between these bills. The Administration wants to vest in locally elected officials the power of decision as to its needs and objectives in the area of community development with a significant role for the states in allocating these funds. This Committee's 1972 approach would provide for certain Federal guidelines to assure that a community will, in fact, address itself to meaningful objectives in the areas of housing, renewal, elimination of slums, code enforcement and similar objectives. We believe that some general Federal guidelines or conditions for receiving this money does not do violence to the Administration's principal objective to vest more power of decision with local officials.

On the point of greater local decision making, we endorse in principle section 9 of S. 2182 which would allocate housing subsidies to communities in accordance with a formula involving incidence of poverty and overcrowding particularly with reference to metropolitan areas. The proposal contains sufficient Federal checks and guidelines to insure that the funds will be spent in accordance with good planning and in response to actual need and ability of a

community to implement its plans.

MORATORIUM ON HOUSING SUBSIDIES

When Secretary Romney announced the impoundment of housing subsidies on January 8 pending a reevaluation of such subsidy programs we applauded this action because we shared with many in public and private life that subsidies for moderate income families were diverting attention from the more pressing need of assisting families of low income. We believed then as we believe now, that the production theory of housing subsidies was wrong and that more attention should be directed to assisting low income families to obtain adequate shelter whether it be new or existing, homeownership or rental. Also, we were concerned over the long-range impact of subsidizing new shelter for moderate income families thereby holding out a false hope to millions of American families that they too are entitled to have a portion of their housing costs borne by the taxpayers in the same income group.

We look forward to the HUD Secretary's report on September 7, as certainly sufficient time has now elapsed for such reevaluation.

CONSOLIDATION AND REVISION OF NATIONAL HOUSING ACT

We support Title I of S. 2182 which represents a consolidation and simplification of the National Housing Act, subject to these comments.

We oppose section 2A of Chapter I which would provide for the Federal guarantee of mortgage bonds issued by local public bodies to acquire or construct multi-family projects. Federal grants would be provided up to 33 1/3% of the

interest costs of such bonds to make up for the added cost of issuing taxable obligations.

We do not believe there is any justification for involving local public bodies in the construction and management of multi-family housing. Private developers, whether profit or non-profit, have proved most responsive in the construction and management of rental housing. Involvement of local public bodies as developers is extraordinary and should be undertaken only under compelling circumstances which, we respectfully submit, have not been revealed at this point.

UNSUBSIDIZED MULTI-FAMILY PROJECTS

We believe it is in error for the Administration to abandon "value" for "replacement cost" in determining mortgage insurance for unsubsidized projects. Where subsidies are not involved we believe that FHA's role should be that of an actuarially sound underwriting system shorn of the regulatory controls which should apply to subsidized projects.

We recommend, therefore, that section 501 be divided into two types of unsubsidized programs, one based on value similar to the present section 207 which would not involve controls over rents, rates of return, and methods of operation and second, one involving replacement cost similar to section 221(d)(4) to which such regulations would continue to apply.

REHABILITATION

We endorse section 501(k) which provides for a special multi-family mortgage insurance program covering property located in neighborhood preservation areas or declining areas where the mortgage is executed to refinance existing

indebtedness secured by the property and to finance any needed repairs and improvements.Some extraordinary measures must be taken to abate the growing abandonment of multi-family structures and we believe section 501(k) is a good move toward that objective.

However, section 501(k) is just part of the answer. Many multi-family structures -- for example hundreds of section 608's built during the 50's -- need substantial rehabilitation. One obstacle to the use of section 221(d)(4), for example, for rehabilitation is the cost certification provisions. We believe cost certification serves a useful purpose and we are not proposing its repeal and return to the windfall era of section 608. However, we do recommend some amelioration of cost certification as an inducement to the more efficient builder to involve himself in rehabilitation. As we look back over the past two decades we note that many things have been tried to produce more rehabilitation but the relentless forces of blight and abandonment continue unabated. We have even tried faster tax write-offs with uncertain results and even this faces a 1974 termination date.

Our proposal would amend section 506 of the revised FHA (relating to cost certification) so that in cases where a substantial portion of the mortgage proceeds is to be used for rehabilitation, the proceeds in excess of actual certified cost would be remitted for reduction of the mortgage principal instead of the excess of the "approved percentage" of such costs which is 90%. Thus, under our proposal the more efficient builder would be able to "mortgage out". A precedent for exemptions to cost certification is already included in the law for projects of

twelve or fewer units where the mortgage is less than $250,000. We believe that an amendment, such as we propose, would assist materially in bringing about greater participation in rehabilitation and we strongly recommend its approval by the Subcommittee. I have taken the liberty of attaching a proposed amendment to section 506 to accomplish this objective.

SUBSIDIZED MULTI-FAMILY PROJECTS

In making these observations about the proposed section 502 of the revised FHA in S. 2182, we are aware of the controversy over the future of this updated version of section 236, as well as its sister program section 235.

We believe that there is a definite role for the Federal government in assisting families of low income to obtain adequate shelter. The rent supplement program under section 221(d)(3) was the first such program which employed the mechanism of private enterprise to accomplish this objective. Unfortunately, the advent of section 236 with its greater appeal to private developers and the inhibitions of many in the Congress to paying a portion of someone's rent in the direct manner of rent supplements, soon relegated rent supplements to a minor role in the nation's scheme for assisting the shelter needs of the poor.

Now it is proposed in the new section 502 to combine sections 236 and 221(d)(3) and employ some of the characteristics of both. Twenty per centum of the units would be low income families who are unable to afford the basic rent (based on a 1% mortgage) with 25% of income and these would receive "additional assistance payments" (rent supplements). However, HUD could reduce this 20% to assure economic viability of the project, an exception which we regret to concede

will become the prevailing pattern. Then section 502 goes on to say that not less than one-half of the units, where tenants receive rent supplements, shall be occupied by "very low income tenants", those earning not more than 50% of the median income in the area. "Lower income tenants" is defined as those whose incomes do not exceed 90 per cent of the median income for the area. Certain exceptions to income are noted, sufficient to insure that the median income will be exceeded in selecting tenants for these projects. In addition as a further requirement, and as an inducement to reach into higher income groups, the Secretary shall seek to assure "a reasonable range in the income level of tenants".

We visualize, based on social realities, that this attempt at an economic mix in such projects is doomed to failure and that ultimately these projects "to assure economic viability" will house moderate income families or low and very low income families, but not both and in the latter case supplementary funds will be necessary to assure economic viability.

I make these observations with the object of dissuading the Subcommittee from shaping a program of economic mix that will not succeed. Instead, the Subcommittee should gear section 502 to low and very low income families even if the program involves a deeper subsidy.

Moderate income families, those whose incomes are near or in excess of the median, should not be the beneficiaries of housing subsidies. There are too many millions of moderate income families, whose efforts have succeeded in giving them the status of the unsubsidized. All the sacrifices of America's great middle class will prove to have been in vain if the Congress persists in shaping a subsidy program for the relatively few who manage to occupy the few projects

which the Congress will annually provide, too often grudgingly, because of astronomical projected costs.

If the Congress insists on some mechanism for moderate income families, perhaps the Subcommittee might explore in depth the proposal advanced by Senator Percy in 1967, when he was a member of this Committee. This plan viewed subsidies for moderate income families as extraordinary and therefore suggested an extraordinary requirement -- a mechanism which provided for some repayment of the subsidy when the adjusted gross income of the beneficiary exceeded a pre-determined repayment threshold. It merits an in-depth study and may prove to be the key to the nation's major housing dilemma -- how to devise a moderate income subsidy program without perpetrating an injustice on millions of America's tax paying middle class families.

LEASED HOUSING FOR LOW INCOME FAMILIES

We note that the highly successful section 23 program will be extended in the revised public housing law and that not less than 30 per centum of public housing contract authorization would be employed for this purpose. Because of its success, we recommend that this 30% level should be increased to 50% and that half of the units should be existing housing. The original purpose of this program was to employ the existing housing inventory for housing low income families. Unfortunately, the program was diverted to become another tool of the highly questionable production theory of housing subsidies -- that poor people had to be housed in new housing.

We commend the views in the statement to your consideration.

Proposed Amendment to S. 2182

On Page 82, after line 20, insert the following sentence:

"Notwithstanding any other provision of this section, the amount of any mortgage under section 501 of this Act, a substantial portion of the proceeds of which are used for rehabilitation, shall not exceed the Secretary's approved actual cost of rehabilitation and, where the land and improvements are to be acquired by the mortgagor and the purchase price thereof is to be financed with part of the proceeds of the mortgage, the purchase price of such land and improvements prior to such rehabilitation; or in case the land and improvements are owned by the mortgagor subject to an outstanding indebtedness to be refinanced with part of the proceeds of the mortgage, the amount of such outstanding indebtedness secured by such land and improvements."

Senator STEVENSON. Our next witness is Mr. Thomas Meade and representatives of the Census Area Stabilization Alliance in Chicago, and I will apologize for the record, as I have already done privately with Mr. Meade, for the long wait and I thank you, too, for the great patience you have shown. I wish I could say that this never happens up here but I'm afraid it's more typical than atypical. We are very glad to have you and we are grateful to all of you for coming along distance to discuss a matter which I know is of deep importance to you and to others throughout the country who live in threatened neighborhoods and are principally in our larger cities.

Mr. Meade, I will be glad to have you proceed in any way you would like, to either summarize or give your statement. I would ask you to identify for the record everybody who has come with you from Chicago.

STATEMENT OF THOMAS J. MEADE, CENSUS AREA STABILIZATION ALLIANCE, CHICAGO, ILL.; ACCOMPANIED BY JOHN IGNAZAK, UNITED ASSOCIATED BLOCK CLUBS; JEANNE PILLER, SOUTHWEST COMMUNITY CONGRESS; MARIANNE GAZDA, ST. PETER CANISIUS COMMUNITY COUNCIL; MARGARET GORMAN, NORTH AUSTIN COMMUNITY CONVENTION; AND RUTH HEIBER, AMUNDSEN PARK COMMUNITY COUNCIL

Mr. MEADE. Thank you, Senator.

Mr. Chairman, members of the Housing Subcommittee, Senator Stevenson: Thank you for your invitation here today. Needless to say, we would remain, as I indicated to you, for another week just for this appearance. Gentlemen, my name is Tom Meade; I am today the CASA spokesman. With me is: Mrs. Ruth Heiber, representing the Amundsen Park Community Council; Mrs. Jeanne Piller, representing the Southwest Community Congress; Mr. John Ignazak, representing the United Associated Block Clubs; Miss Margaret Corman, from the North Austin Community Convention; and Miss Marianne Gazda, St. Peter Canisius Community Council.

We have come to Washington today at your invitation, Senator Stevenson, because we can no longer remain silent about what we consider to be a great American tragedy, the resegregation of neighrhood after neighborhood on a block-by-block basis in Chicago and other cities. We believe that the Federal Housing Administration, FHA 203 insured mortgage loan program is the single most important factor in continuing this pattern of total resegregation.

Let us stop just momentarily and preface our further remarks with the fact that the CASA coalition totally supports programs which assist families unable to afford conventional downpayments. CASA also sees the need for subsidized programs designed to redevelop the shells of America's inner cities with adequate housing. Further, we commend the Senate Housing Subcommittee and you in particular, Senator Stevenson, for the introduction of legislation which will protect and reimburse the buyers of structurally defective housing.

We are here today to talk principally about the concentration of the FHA 203 insured lending program and the attendant problems it creates. This is the major problem with which we are concerned. We

brought with us, in the absence of time to develop a more sophisticated presentation, our having only 36 to 48 hours to prepare a statement some maps which are part of an addenda attached to the back of the statement.

There are three maps. If I may bring us to map No. 1, it shows figures provided by the Society of Real State Appraisers in the Chicago area which breaks the city of Chicago, down into 18 areas. Now, if you will notice on the green map it shows 18 areas. Area 14 financing. The x's represent the FHA 203 insured mortgage loans. as compared to only 5 percent conventional financing. The adjacent area, area No. 13, shows a reverse ratio of 92.5 percent conventional financing and 7.5 percent FHA financing.

We show this to illustrate what we mean by concentration of FHA insured mortgage lending and the lack of the de facto use of FHA lending in other areas.

To go further, to focus in on map No. 2, we take an area from 1600 west in Chicago, which is Ashland Avenue, to 4800 west, which is Cicero Avenue, and from 47th Street to 74th Street. In this area there have been a number of conventional and FHA loans, real estate transactions, within the last 2 years. The dots represent the conventional financing. The "x's represent the FHA 203 insured mortgage loans.

You will notice that within a four-by-eight block area there is a relatively total concentration of FHA 203 insured lending and the total absence of such type lending in the other areas.

Now let us look at map No. 3 which will further determine the concentration, and one of the attendant effects of this type of FHA concentrated lending. We are pointing now to an area between 1600 west in Chicago and 2000 west in Chicago, a one-half mile distance, and between 59th Street in Chicago and 67th Street, a 1-mile distance. In that area you will notice that we list by address a total of 88 foreclosures which can be seen visually since they are abandoned buildings, boarded-up houses, that exist in this section of Chicago today. These houses were foreclosed; the statistics were provided to us by the Chicago Area Director of the Federal Housing Administration, Mr. John Waner.

Our efforts, at best, are highly unsophisticated and do not provide the type of information that we believe the Federal Housing Administration can provide if they develop more sophisticated administrative programs. Concomitant and concurrent with the FHA concentration of insured mortgage loans is a disinvestment, if you will, on the part of the mortgage lenders, the lending institutions, not only in Chicago, but across America. When they see this type of FHA concentration, apparently the red flags go up in their minds and these areas become to them high risk areas and, red-lining procedures go into effect. The overall effect is almost a total loss of conventional financing in these same areas.

As an example, in our area in North Austin, Laramie Federal Savings & Loan moved out, left the community which had helped it build its resources from scratch over a period of many decades. At the time that this area became high risk in their minds, the red-lining went on and Laramie Federal took our deposits and left the area for greener pastures. Austin Federal Savings & Loan in Chicago, on North Avenue, is another lending institution that applied to remove its head-

quarters from this area in Chicago to Bloomingdale, Ill., an area remote from that area in which it had its beginnings. Austin Federal Savings & Loan, as an example, has on its books today approximately 58 percent of its deposits from ZIP code areas 60639 and 60651, which represents our community. They return approximately 15 percent of this money, in terms of mortgage financing and housing rehabilitation loans, to these same ZIP code areas. Recently Austin Federal applied for new headquarters in Bloomingdale, Ill., to use our deposits for mortgage loans in the suburbs.

Fortunately, through your intercession, Senator Stevenson, and Congressman Rostenkowski and the aid of Congressman Annunzio, the application for removing the headquarters of Austin Federal was denied. Their headquarters now remain in North Austin.

We need more of this type of responsible political leadership in Washington.

Local businesses in the areas where FHA 203 lending is concentrated are hurt in the following way: Block by block, the commercial streets just remain viable and then die, and turn into a sort of wasteland. The school problem becomes greater and greater. As our neighborhoods become more and more resegregated, the private schools, as well as the churches, close down completely. As the private schools close, the private school children move elsewhere. More and more public school children move into these same neighborhoods and there's a greater demand than ever on public schools.

For example, in Chicago, in the resegregated neighborhoods the demand for public schooling increases. We have been told, by Dr. Hanna, of the Chicago Board of Education, that by 1980, in Chicago, there will be 180,000 empty school seats and yet today, paradoxically, in July of 1973, we are in the process of building more and more schools in the resegregated areas of Chicago.

We will mention briefly the continuing activities of those panic-peddling real estate agents who are still operating on the peripheries of resegregated areas, and the irresponsible lending institutions which approve high-risk applicants for FHA-insured mortgage loans.

We know these things from personal experience because we have block-by-block, house-to-house contact. We know what is going on because this is where we live. We consider ourselves to be more authoritative in these matters than any governmental agency or any special interest group because of the fact that we know exactly what's going on in our local communities as a result of the concentration of FHA-insured mortgage lending.

Lastly, we would like to make reference, for the record, of the Federal Housing Administration scandals that have taken place so far, like the Detroit disaster, the problems in New York, the problems in Philadelphia, and so on. We don't submit that we have final ultimate solutions for the problems but we do know that there must be specific solutions.

We know that the solutions cannot be found simply in the hearts of men; that the social engineers with their causal relationships and effects have done little in improving these problems; and we are still looking for national political leadership to respond to this sensitive economic and social issue.

We urge the Senate Housing Subcommittee and the full Committee on Banking, Housing, and Urban Affairs to draft and sponsor legislation which prohibits the concentration of FHA 203 lending and makes de facto FHA 203 lending accessible everywhere, proportionately, in those areas where the prices of housing are within reach of the FHA 203 insured mortgage loan program.

Specifically, we recommend that the FHA 203 insured mortgage loan program be made competitive with conventional financing. We propose the abolishing of the discount point system, to be replaced by a floating interest rate, greater risk assumption, and more responsibility to be assumed by the private lenders, helping to make Federal financing more attractive for use in other areas where it is nonexistent and in order to be more competitive with conventional financing.

Further, we recommend that FHA-type financing must be more proportionate throughout metropolitan areas where the price of housing is within reach of FHA programs. We also propose that legislation be drafted in relationship to the lending institutions whereby conventional mortgage money will continue to be made available in the areas peripheral to those which have been totally resegregated.

Further, specifically, we are asking that the Federal Housing Administration establish, in the Chicago area, as a pilot program for the rest of the Nation, a monitoring system, an information retrieval system, a data retrieval system, if you will, which will point out the concentration of FHA 203 lending and thereby help to enforce the suggested new legislation which we recommend. It would help political leadership nationally and our people locally in Chicago and other cities to determine the interrelationships among the lending institutions and foreclosures, the real estate agents and the number of abandoned buildings and other specifics as indicated on the agenda, dated July 20, 1973, which is included in the addenda.

Lastly, we are proposing an economic formula, a hard, practical formula, that a 5-percent limitation be set on the number of existing housing units that may be financed in any census tract, in any one year, through the FHA 203 insured mortgage loan program.

In order to realize the above recommendations, we understand that there must be major revisions, by way of legislation and administrative change, not only in the governmental agencies, the FHA, but also in the home loan industry. If FHA is to be competitive with conventional financing, the discount point system must be abolished once and for all. We have taken note of the Federal Housing Administration's proposal of Thursday, July 5, 1973, that interest rates on FHA 203 insured loans be increased from 7 to 7¾ percent. On our initial review, we consider this proposal nothing more than a sop thrown like a bone to those homeowners who are now forced to sell through the FHA 203 program because they have no other avenue of selling, but we also recognize that the private lenders must get a fair return on their investments, a fair return on their lending, so that it is competitive with conventional financing and so that it is competitive with other types of lending; but the discount point system must go.

We also ask that legislation be drafted guaranteeing that mortgage lenders are made responsible to local communities, to put back their funds in those areas from where they get their funds. We cannot al-

low the disinvestment referred to previously to continue and expect to stabilize our communities.

We also ask, gentlemen, that through the U.S. Senate, and that you, in particular, Senator Stevenson, help us to establish a pilot program immediately in the Chicago metropolitan area whereby we will set up administrative guidelines, through a task force, with the composition of you or your direct appointee, the HUD–FHA officials, and representatives of CASA coalition. This task force would oversee the planning and developing of the monitoring system (the information retrieval system) we propose, which is the first necessary administrative function so that basic change can be made in the Federal Housing Administration policy, and so that policing can be done of the FHA programs.

In closing, we must stress again that for most of us this is the 11th hour. For some of us time has run out. It's all over. This continuing block-by-block resegregation will go on, neighborhood after neighborhood will be resegregated, with its attendant problems. We have heard testimony this morning from other groups using figures like $20 billions, representing the American investment in housing in the cities. I assume this means Federal moneys. We have heard about programs about physical rehabilitation in the inter cities; we have heard about programs about New York State needing now $1 billion for 236 programs.

We submit that none of these programs will ever be implemented effectively as long as the Federal housing policy such as FHA 203 continues on a concentrated basis, continuing the total resegregation, and tearing apart the inner cities of America. There must be a hard-nosed, practical solution. We submit an economic formula such as the recommended 5 percent. We want equal housing opportunities for all. We support programs along these lines.

Lastly, gentlemen, we ask that you do not respond or react to our proposals immediately and do not say that these are unworkable, not feasible, et cetera until you have had due time to let the ideas and the proposals we are talking about sink in. These are not simple ideas. We believe that for the first time, as a representative coalition. We reflect the viewpoint of millions of Americans. We need your help. We have no more time. America needs a CASA.

Thank you.

[Complete statement follows:]

Date: July 27, 1973

To: Senate Housing Sub-committee

From: Thomas Meade
CASA
Census Areas Stabilization Alliance
5758 W. Potomac
Chicago, Illinois 60651
312-379-7823

Mr. Chairman and members of the sub-committee. My name is Tom Meade from Chicago and I am the spokesman for the Census Areas Stabilization Alliance (CASA). CASA is a coalition of community organizations, church groups and associated block clubs, united to bring about substantive changes in the FHA insured mortgage loan program. With me today are several representatives of groups presently affiliated with CASA. They are: Mr. John Ignaszak, United Associated Block Clubs; Mrs. Jeanne Piller, Southwest Community Congress; Miss Marianne Gazda, St. Peter Canisius Community Council; Mrs. Margaret Gorman, North Austin Community Convention and Mrs. Ruth Heiber, Amundsen Park Community Council.

We have come to Washington today because we can no longer remain silent about a great American tragedy--the total resegregation of neighborhood after neighborhood on a block-by-block basis in Chicago and other cities. We believe that the Federal Housing Administration, through the concentration of FHA 203 insured mortgage loans, is the single most important factor contributing to the continuation of this pattern.

First let me preface my remarks by saying that CASA totally supports programs which assist families, unable to manage conventional down payments, in buying homes. CASA also sees the need for subsidized programs designed to redevelop the shells of American inner cities. Further, we commend this committee in general and Senator Stevenson in particular for the introduction of legislation to protect and reimburse buyers of structurally defective housing.

The concentration of FHA 203 loans, and its' resultant effects, is a major problem--in our neighborhoods, the major problem--which has not yet been dealt with in terms of administrative or legislative reform. To us and those families in similar neighborhoods the problem is abundantly clear. With the aid of the three attached maps, I will try to present a bird's eye view of the problem to this committee.

The first map shows the city of Chicago, divided into 18 areas. Within each area the percentage of conventional mortgages to FHA insured mortgages is shown. It is clear that certain areas have a high concentration of FHA 203 loans, while areas adjacent to them reflect a relatively low percentage of FHA loans.

Take for example Area 14. The percentage of FHA loans granted in the past 2 years was 94.3%. The percentage of conventional loans was only 5.7%. In the adjoining area, Area 13, the ratio of Conventional loans to FHA loans is almost reversed (conventional 92.5%, FHA 203 7.5%).

Our second map (titled: Conventional and FHA mortgages in SCC) further highlights this problem of the FHA concentration, by zeroing in on the area between Ashland Avenue and Cicero Avenue on Chicago's South Side. By noting that Western Avenue is the dividing line between Areas 13 and 14, the fact of FHA 203 loan concentration (each x is an FHA loan, each dot a conventional loan) on a block by block basis becomes dramatically evident on this second map. The converse also is dramatically shown; FHA loans are not used uniformally in all areas.

With the fact of concentration firmly established, we move to the third map. This map further zeros in on the problem. This map takes an 8 block area between Damen and Ashland and here we begin to see one major effect of FHA 203 concentration. In this area in the past 2 years, there have been 88 foreclosures. Now homes stand abandoned; buildings vacant and this neighborhood has reached the point of inevitable deterioration. All this at a cost of hundreds of thousands of dollars to the tax payers.

The high concentration of FHA insured mortgages in certain areas has resulted in the total resegregation of these communities. Coupled with the inaccessibility of FHA in other areas of the city, the Federal Housing Authority has fostered and effected, albeit unwittingly, segregated housing patterns which violate the spirit of all existing civil rights and national housing legislation.

Concurrent with the concentration of FHA insured loans is the process of disinvestment. Conventional lenders refuse to grant loans in those neighborhoods now labeled as "high risk." Often times they even relocate their facilities and abandon an area all together. In my community Laramie Federal Savings and Loan has already moved their main office to the suburbs and Austin Federal would have joined them, if it were not for our efforts. Local businesses, feeling the economic under-pinning of the community being dismantled, either close down or follow the lead of the savings and loan institutions and relocate. Homeowners, now unable to secure a home improvement loan, often have no alternative, but to watch as their property crumbles around them. This situation which develops is easily exploited by the panic peddling real estate brokers capable of turning huge profits at the expense of stable communities.

What I have said so far mirrors our personal experience with FHA. When we couple this with what we have seen in newspapers and magazines concerning FHA scandals in New York, Detroit, Newark, St. Louis, Los Angeles and Philadelphia, we see a program which is not only poorly administered but, as presently conceived, lends itself to the most blatant abuses.

We know that the solution cannot be found--simply-- in the hearts of men. We know that the social engineers, with their

causal relationships and effects, have accomplished little in solving this problem. We are still seeking the national political leadership to respond to this sensitive economic and social issues.

From our vantage point right now, we urge this committee to draft and sponsor legislation which prohibits the concentration of FHA 203 loans and makes FHA loans accessible everywhere proportionately. Specifically, we recommend that:

1. FHA 203 insured mortgages; (a) are made competitive with conventional loans, by making them attractive in those areas where conventional loans are used exclusively; (b) are written proportionately throughout the metropolitan areas.
2. Conventional mortgage money be made available everywhere equitably.
3. An FHA monitoring system (Information Retrieval System) be established to: (a) guarantee no concentration of FHA 203 loans; (b) enforce this new legislation we are recommending.
4. The maximum availability of FHA 203 loans be fixed at 5% of the housing units in a given census tract in any given year.

In order to realize the above, we understand that major revisions must be made throughout the home loan industry. First, if FHA is ever to be competitive with conventional financing, the discount point system must forever be

abolished. We have taken note of the Federal Housing Administration's proposal of Thursday, July 5, 1973, that interest rates on FHA 203 insured loans be increased from 7% to 7 3/4%. This proposal is no more than a sop thrown like a bone to those homeowners who are forced to sell through the FHA 203 program. This proposal guarantees even greater profits at less risk to the mortgage lenders. The discount point system, whether it is 1% or 15%, must go. Further, legislation must be drafted guaranteeing that conventional lenders are made responsible to local communities. We cannot allow the process of disinvestment to continue and create a void which can only be filled by FHA.

We ask that you, using your good office, recommend that a pilot program be established immediately in the Chicago Metropolitan area with administrative guidelines to end the concentration of FHA 203 insured mortgage loans.

In closing, I can only stress that in our communities this may indeed be the 11th hour. The continued block-by-block resegregation of American cities is inevitable unless the FHA insured mortgage program is revamped along the lines suggested. Such a positive approach is needed if America is ever to insure both viable local communities and equal housing opportunities for all.

We ask that you give us no immediate reaction, but rather seriously consider our legislative proposals.

C A S A MEETING CALLED BY SENATOR STEVENSON WITH HUD ADMINISTRATORS

300 S. Wacker, Chicago
July 20, 1973

A G E N D A

1) WORKING TASK FORCE

A) Purpose: To establish a pilot program, in metropolitan Chicago, with administrative guidelines to end the concentration of FHA 203 insured mortgage loans.

B) Composition of Task Force:
- Senator Adlai Stevenson, III
- Mr. George Vavoulis, HUD Regional Director
- Mr. John Waner, HUD Area Director
- Five C.A.S.A. Representatives

C) Deadline for Task Force Report:
Plan Formulated, September 1, 1973

D) Before September 1, six weekly working meetings

2) MONITORING SYSTEM (Information Retrieval System)

A) Purpose: To monitor all FHA 203 (b) and 221 (d)(2) insured mortgage loans by census tract.

B) Information to be compiled and indexed by:
- name of buyer
- name of seller
- property address
- census tract
- description of house
- sale price
- amount of mortgage loan
- FHA case number
- FHA appraised value
- FHA appraiser
- lending institution
- points charged
- real estate company
- real estate agent
- certificate of inspection number
- (if foreclosed)

C) FHA insured mortgage loans being processed:
- total number
- census tract
- addresses

D) Foreclosures:
- total number
- census tract
- addresses

E) Information to date back to 1966

3) ADJOURN

Dear Senator Stevenson:

I am joining with my neighbors in sending you this letter to express my concern about the Federal Housing Authority's insured mortgage loan program (F.H.A. 203 b).

I understand that this program was established to assist families, unable to manage conventional down-payments, in buying a home. While in theory I am not opposed to such a plan, I know that in practice F.H.A. 203 b is the single most important factor in the block-by-block resegregation of the city.

As has been witnessed time and time again, this program has been abused by certain real estate interests and lending institutions. The concentration of FHA 203 in certain areas has led to great profiteering at the expense of stable communities. Other inequities such as the charging of points and low appraisals tend to support this pattern.

I ask you, therefore, to act on my behalf in having the following points written into the new federal housing legislation now being prepared:

1. That FHA set up a program for monitoring their loans so that not more than 5% of the loans made in any year in any census tract may be F.H.A. 203 loans. This will insure that FHA 203 is not concentrated only in certain areas of the city, and, in addition;

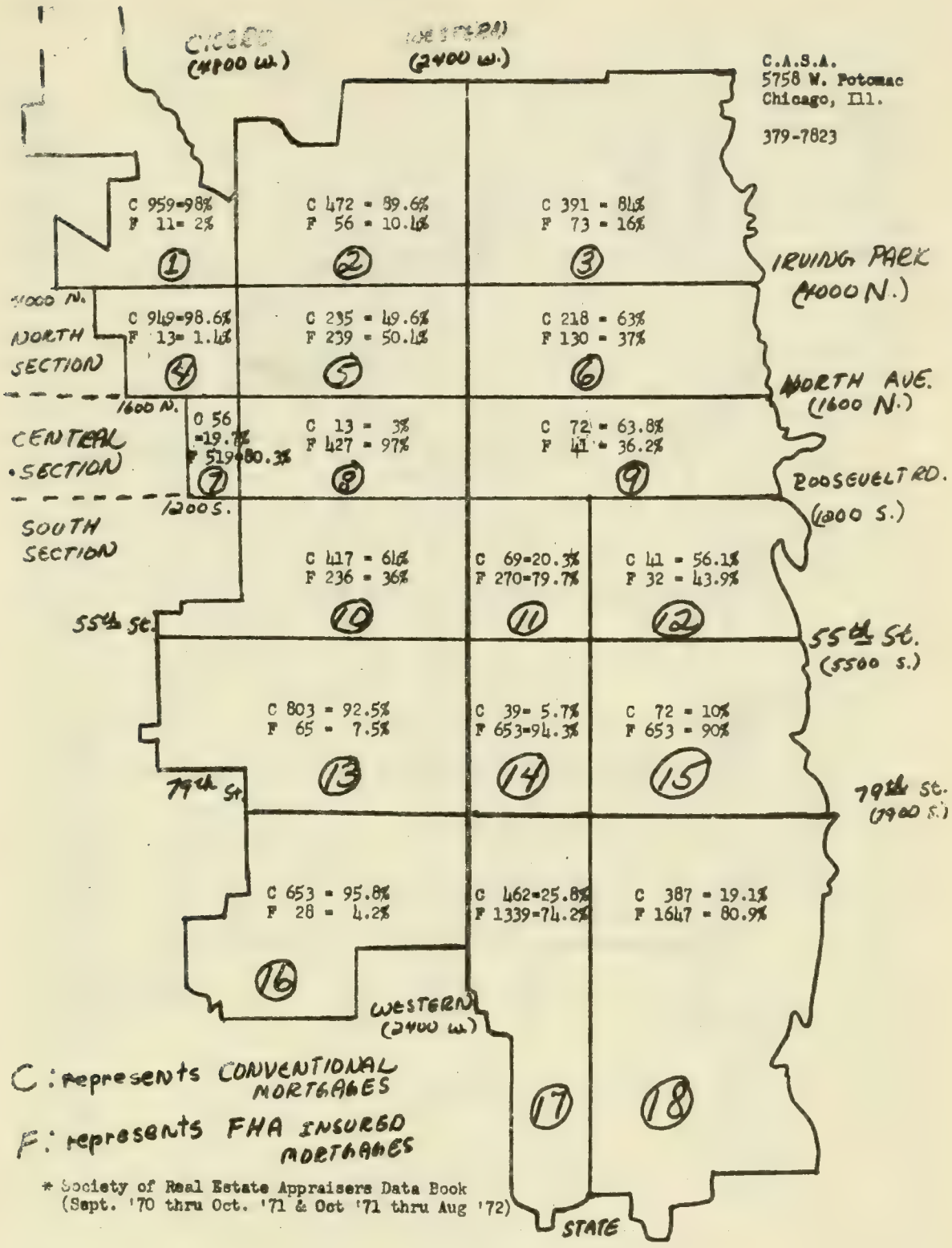
2. That FHA 203 loans not be made available in North Austin and other communities in which the use of FHA loans is currently concentrated until they are available on a proportionate basis throughout the entire metropolitan area.

I feel that the future of my community and indeed the entire city is at stake and therefore urge you to act upon this matter now.

_____

_____

Chicago, Illinois

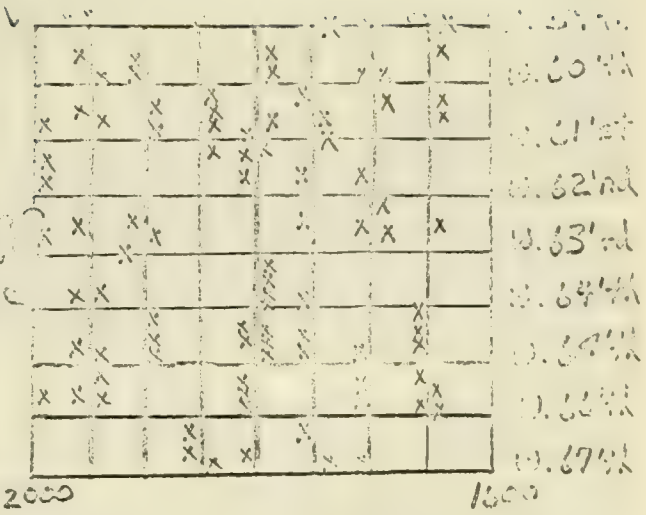


C: represents CONVENTIONAL MORTGAGES

F: represents FHA INSURED MORTGAGES

* Society of Real Estate Appraisers Data Book
(Sept. '70 thru Oct. '71 & Oct '71 thru Aug '72)

Conventional - o
FHA - x



TOTAL OF 88
[illegible] homes were bought
[illegible] the past two years]

S. Marshfield
5928
6020
6036
6330
6401
6429
6439
6507
6524
6542
6539

S. Paulina
5951
5952
6014
6137
6204
6227
6228
6449
6512
6524
6644

S. Hermitage
6006
6021
6128
6218
6352
6420
6422
6610
6643

S. Wood
5917
5937
6027
6046
6105
6106
6120
6321
6327
6345
6353
6422
6423
6426
6436
6442
6525
6545
6551
6625

S. Honore
6019
6003
6023
6109
6608
6628
6631

W. 61st
1746

W. 63rd
1919

S. Wolcott
5950
5952
6025
6051
6214
6239
6405
6417
6421

S. Winchester
5922
5953
6021
6029
6220
6343
6344
6430
6445
6534
6537
6503

S. Damen
6043
6113
6137
6237
6520

W. 59th
1635
1743

Data provided by Mr. John Warner, [illegible]

Senator STEVENSON. Thank you, Mr. Meade. Mrs. Heiber, Mrs. Piller, or would any of you like to add anything to that statement before we get into some questions? If not, I would like to ask a few questions.

First, though, if that is, as you call it, an unsophisticated presentation, we could use more unsophisticated presentations in the Congress. I tried to say this at your meeting not long ago. I think too often we operate in a vacuum and make decisions without really understanding their impact on the people whom we are trying, not always successfully, to serve. So I think it is terribly important that we hear, and hear directly, from the people who live in these programs that are helped or hurt by them.

I can report a little progress on one of our fronts. You mentioned the reimbursement provision which I introduced. We are in conference now with the House on that proposal to reimburse homeowners for the cost of repairing structural defects which were not technically in the FHA inspection process, and we are winning. I think the House is willing to go along with the Senate and perhaps by the end of next week we will place on the President's desk a bill which will provide those reimbursement rights.

Now, I think there are a couple points to be made clear for the record. As I understand it from this and prior conversations, you are principally concerned about 203(b) housing, the major unsubsidized housing program; is that right? These charts refer to 203(b) housing or is that all——

Mr. MEADE. That's correct, Senator. Our reference is to 203(b) housing because in our minds this causes the pattern of resegregation, whereby no other programs can operate effectively until this kind of thing stops. We are suggesting the 5-percent limit per year in each census tract, along with other programs, such as rehabilitating inner cities, the shells of inner cities, and so on, and other types of programs could work effectively and concomitantly.

Senator STEVENSON. Well, I haven't been in the Senate very long but I'm told in 1968 Congress heard testimony that the FHA was not guaranteeing housing loans in red-line areas. The Congress responded then by writing into the law an anti- red-line provision which in part is responsible now for the availability of FHA loans in red-line areas.

I think one of the conceptual problems that this committee has to face is whether the FHA loans are the cause of the problem or in fact the result of another problem; namely, the unavailability of financing in these areas. The whole program is predicated on the unavailability of conventional financing at interest rates that are within the reach of most Americans. These FHA programs, including the anti-red-line provision, were intended to make financing for housing where otherwise it simply is unavailable.

You show us the charts which irrefutably demonstrate that FHA loans are being concentrated in certain geographic areas, but isn't the reason for that the unavailability of conventional financing in those areas and, in fact, if you didn't have FHA financing in those and other areas across the country, especially now with the very high interest rates, you just wouldn't have any financing available for most Americans? They just wouldn't be able to get any housing. It's hard enough with FHA housing. We heard testimony this morning from

Mr. Logue from New York about the FHA rates and low high they were, how difficult even with FHA financing it was going to be for most people to get housing. It's a longwinded question.

Mr. MEADE. Senator, you are absolutely correct, but that's just part of the problem, the lack of conventional financing. We agree that conventional financing, the dearth of it in these areas, is one of the major problems. But also, the easy availability to buyers of FHA 203 insured mortgage loans in the same areas that we are talking about, cause the block-by-block resegregation within a matter of 6, 12, 18, 24 months.

I overlooked a point in our statement, that every civil rights law that has been written—the housing legislation that is on the books today—are violated, in spirit, by the effects of FHA concentrated lending programs.

The minorities consider the FHA programs a "rip-off," not only for the reasons of defective housing, but because of this total resegregation.

The only solution is a hard and fast economic formula that has to be legislated and administered. There have to be practical solutions.

Senator STEVENSON. Well, I have absolutely no question about the desirability of really cracking down hard on blockbusters and all the unscrupulous builders, brokers, and the financial institutions. We don't really need to discuss that a lot because we are agreed we have got to come up with some answers. We don't have all of the answers. I'm getting at the toughest, most difficult part of your proposition which is this notion that somehow we should, on a rigid formula, allocate the financing for housing, not just in Chicago—when Congress legislates it legislates for the whole country. We have to be concerned about the impact of everywhere, and I suspect that the figures which you have given us on the concentration of FHA housing, which are alarming, reflect, in part, economic and income levels; and if you were to say as a matter of law that there can't be more than a certain percentage of FHA housing in any given area the effect of that across the country would be to deprive all the people who need the help most, most of them, of the financial assistance that's intended through FHA. They would end up with no housing.

Mr. MEADE. I just want to make one comment in response to that, Senator. I know what you are saying, but there is something wrong with the Federal Government since it is, in fact, spending billions of dollars in Housing programs and cannot come up with different programs which will help relieve this kind of housing need; and second, something is wrong with a policy which continues to resegrate middle-class, middle-income neighborhoods like ours today, where the housing is in good physical condition, up-to-date, and where the FHA 203 program has the effect of completely changing it.

All we are saying is this: That the program as it exists is destroying these areas even though it purports to help those who can't help themselves. We are saying that other solutions have to be found, one of which is that in order to keep our neighborhoods viable, there has to be a limitation of the FHA 203 program. Our recommended formula is a 5-percent limitation in each census tract per year; but along with it, since we are spending billions of dollars, we can't understand why other practical solutions can't be found. We cannot just simply keep pumping more and more billions into housing programs, when we are

destroying, literally destroying, in an economic and social sense, well physically maintained neighborhoods. These patterns are happening all over America. This is what we are talking about. Can't you here in Washington help us stabilize?

These recommendations of ours would have the effect of helping us to stabilize and also, at the same time, to come up with new programs which relieve the need and take some of the burden for housing for the people you are talking about.

Senator STEVENSON. Well, I don't think there's any disagreement at all about the end result we are all seeking. We ought to make this clear for the record. What is happening in your neighborhoods is happening in neighborhoods all across the country. It's happening in black neighborhoods and white neighborhoods and mixed neighborhoods. What you are seeking, I believe, is not an all-white neighborhood. You are seeking a stable neighborhood.

Mr. MEADE. Stabilization is the keynote. That's what we are looking for, Senator—stabilization, viability, equal opportunities, equal housing. This is what we want in all those areas where Federal housing programs are within reach, where the price of housing is within reach of the Federal programs.

Senator STEVENSON. Well, I think that's everybody's purpose and the Government ought to be able to come up with an answer.

Miss GORMAN. I would like to make a comment to the economic factors that you spoke of. The savings and loans or the mortgage money for conventional mortgages is not available because we are beginning to be red-lined. As we are red-lined the conventional mortgage money becomes very difficult to obtain or impossible, and then FHA moves in and this is the problem that we have. We are working on the mortgage money. We met yesterday with the Federal Home Loan Bank Board and we are working from that aspect, too. We realize the problem is many-fold. We are saying this is one area. We are working on the money part of it. That's another area. There are so many things involved and we are cognizant of that fact, just as I think you are.

Senator STEVENSON. Well, Mr. Meade mentioned one savings and loan as a case in point.

Miss GORMAN. But the FHA comes in and it's concentrated because there's no other way for people to obtain mortgages.

Senator STEVENSON. I see that. In my case, there is no disagreement, and that was made quite clear in the case of the savings and loan you mentioned. This committee—not this subcommittee but the full committee—has jurisdiction over the Federal savings and loan banks and I think it is something we ought to look at. In the case of the Federal Home Loan Bank Board, as I understand it, it is not required now by law to give consideration to the impact upon a community of the departure from that community by a savings and loan institution. In that one case some consideration was apparently given to that. It is a factor, I am told, that is considered by law in connection with moves by banks. For some reason there is a discrepancy in the law between the factors which must be considered in granting this kind of approval to banks on the one hand and savings and loans on the other. I don't see any basis for that distinction in the law and I think it is wrong not to consider the impact on the community.

We are making some headway and maybe we ought to try to make some change in the law.

Mrs. PILLER. I would like to say something. It is my personal belief that unless something like a 5 percent is enacted immediately, there isn't any hope for the Southwest Side of Chicago. That sounds like really a dark prospect but that is true, because the turnover is so rapid and if people don't feel that there's a shred of hope coming from the Government in containing this we are going to have an exodus like no one has ever seen. It began a long time ago and it is continuing except it is a faster rate. In spite of the fact that money is tight people are moving out to the suburbs at a fantastic rate. You are aware of this.

Senator STEVENSON. Well, we were discussing some of the consequences of that exodus earlier in the consideration of regional planning, but it might make more sense to avoid the problems than to cope with them after they become insoluble.

Mr. MEADE. Senator, may I ask you, do you see the need for a pilot program in Chicago to show the way for the rest of the country a monitoring system such as an information retrieval or a data retrieval system to graphically illustrate to the Federal Housing Administration itself what we are talking about, so corrective changes can be made as necessary, as determined by such an information retrieval system?

Senator STEVENSON. Well, I see absolutely nothing wrong with a monitoring system as I understand it. I think the facts and figures and all the information ought to be made available on where the FHA housing is going. But I don't see a monitoring system as a substitute for a program. A monitoring system monitors the programs. The programs are, as we all know too well, working. So, to that extent, I disagree. You say you want an FHA monitoring system established to guarantee no concentration of FHA 203 loans and to enforce this new legislation we are recommending. Well, there has to be a program, legislation, some way of resolving these problems. Monitoring doesn't do that. Monitoring just monitors whatever is taking place and I think that's——

Mr. MEADE. That's right. But what we are saying is this: There is no existing system—in the Federal Housing Administration—which can give you the facts and information essential to determine what course of action you must take. We know this is happening out there. The figures we have, as rough as they are, are accurate figures because we know what is going on block by block, house by house. I will give you another illustration. The City of Chicago Building Department took a 3-square-mile survey, visual survey, of a south central area of Chicago. In that area there were 450 abandoned buildings. We were told that there is no way to determine how those buildings were financed but because of their experience in building, housing, zoning, et cetera, it is surmised—just surmised—that over 400 of those 450 abandoned buildings were financed through FHA programs.

Why don't we have a built-in system like a monitoring system where we can find out these things so you can take action if necessary? It's wrong that we do not have a monitoring system.

Senator STEVENSON. Well, I think it's good for us to know as well as for the public. Maybe we ought to get more testimony, if not now, later, from you. You have had access to information with which to compile these comprehensive charts. What's missing that you need that you didn't have to enable you to put together these figures I just

don't know. To the extent it is possible to get whatever it is, you are right; I think we should get it. We should have access as well as the public.

Mr. MEADE. Senator, I don't know whether this is an appropriate place or time to ask you once again in regard to your help in getting the monitoring system and in regard to your help in determining the composition of a task force to oversee the planning and developing of this monitoring system, but we would like to ask you once more. You indicated previously that you would help us. We would like to ask you again if you will continue to exert your efforts in regard to these matters.

Senator STEVENSON. Well, that goes without saying, of course. Of course, I'm not the witness at the moment, but——

Mrs. PILLER. Senator, may I add to that about those figures? Those figures were developed by private work from the Society of Real Estate Appraisers. In fact, when we went to HUD in the beginning they couldn't give us these figures at all. We had a public meeting on the southwest side just recently and asked about a particular group called Southland and they did in fact sit down and type up a letter and give us these figures that appear on your paper there. But these figures are not usually available to us because they have case numbers rather than addresses and we are seeking to have their administrative change to do it by blocks rather than by case numbers. There is no way of identifying a particular area the way it is set up right now. I would have to go through tremendous amounts of work to determine where in fact the impact is taking place. We can see it visually because we are out in the neighborhoods all the time. So that is one of the things we are seeking to do by this task force.

Senator STEVENSON. Well, as I indicated before, I would be glad to give any help to develop such a system that would make information available not by case number but by area.

There are many ways to tackle these problems. I think I can confidently say that every member of this committee would agree with your objectives. I can certainly say in response to something you said, Mr. Meade, that no one can feel very confident of the answers. We are groping for answers. We want to hear the ideas and approach them with an open mind and try to solve some of the problems that you have mentioned, and there are many more possibilities than those you have mentioned.

You did mention more conventional mortgage money. That is certainly a concern that every member of this committee would share and we would all try to help out on. We have got to do a better job of city planning, community development, and more to help the new areas intelligently and if possible preserve them so that we don't have to go to the enormous expense of renewal and certainly to reverse the flight from the central cities to the suburbs.

As I tried to indicate earlier, I would like to try to develop ways also of reversing the flight from the rural areas into the large cities. We know too well what is happening with the rural out-migration continuing on the one hand, and then the out-migration from the city to the suburb on the other hand. We know what it leaves us with. We just don't have all of the answers at the moment.

Mrs. PILLER. I have a question. I would like to know how far along you are with writing the new legislation. In fact, we were told that

the new bill is just about ready. Is this in fact true and if so, where might we see a copy of what has been done on it?

Senator STEVENSON. We can give you copies of all the bills before this committee. The purpose of these hearings is to help us write housing and community development legislation. That is why you are all here. There are many bills before the committee. They are introduced and then we write from those bills.

Mrs. PILLER. I know it is probably a time-of-day question, but in my own mind I am trying to determine how far along are you with the bill? Do you anticipate it will be completed by the end of the year?

Senator STEVENSON. I will have to ask staff. These are the bills. There are over 50 of them so far before the committee and we are hoping to report bills out by the end of September.

Mrs. PILLER. Is there somewhere perhaps in digest form where this is available? I know that's like asking for the moon. Secondly, I would like to know are there any specific recommendations that you have made that will in fact be a help to us?

Senator STEVENSON. We might have some digests. The Senators probably have. Let's try to put together a collection of bills and, to the extent we can get them, explanations of what the bills do. In some cases they will be available and in some cases they won't be.

With that, I am going to have to conclude this hearing and get to the floor where I have another matter pending of great concern to me. It is the reform of campaign financing which is in need of reform.

Mr. MEADE. Thank you, Senator. In conclusion, I hope you can convey to the other Senators on the subcommittee and to the full committee that we would like to say that we may come back a year from now, but we may not be able to return. This is what FHA 203 is causing now, today, and in a few short months we may be resegregated. That's the way it is.

Senator STEVENSON. The committee and staff will do its best. We can promise nothing more than that. Now, Senator Brock has a statement.

STATEMENT OF BILL BROCK, U.S. SENATOR FROM THE STATE OF TENNESSEE

Senator BROCK. Mr. Chairman, I appreciate the opportunity to testify in support of S. 1188, a bill that I have introduced to end restrictive work rules and outmoded building code restrictions on the use of industrialized building products. My bill enjoys the cosponsorship of my distinguished colleagues, Senators Beall, Bennett, Fannin, Dole, Dominick, Tower, and Thurmond.

The language of S. 1188 is the same as found in the amended version of S. 3373 that I introduced during the 92d Congress. It is an outgrowth of the breakthrough amendment offered by Senator Tower to the Housing and Urban Development Act of 1969. As finally adopted, that amendment directed the Secretary of Housing and Urban Development to:

(4) assure, to the extent feasible in connection with housing construction, any major rehabilitation and maintenance under programs assisted under this section that there is no restriction by contract, building codes, zoning ordinances, or practice against the employment of new or improved technologies, techniques, materials, and methods, or of preassembled products which may reduce the cost

or improve the quality of such construction, rehabilitation, and maintenance, and therefore stimulate expanded production of housing under such programs, except where such restriction is necessary to insure safe and healthful working and living conditions.

Thus, Congress has evidenced a legislative policy recognizing the necessity for use of technological advances in construction. Unfortunately, Congress has not given enforcement power to support this legislative policy. My bill should fill this gap.

At my urging, this subcommittee held 4 days of hearings last year on S. 3373. The Committee on Banking, Housing and Urban Affairs has published these hearings in a document entitled "Improved Technology and Removal of Prevailing Wage Requirements in Federally Assisted Housing."

What emerged from the hearings was clear evidence (1) that the new construction technology and products offer an important means of licking spiraling construction costs and (2) that restrictive work practices and outdated building codes continue to severely limit the use of this technology. The work rule barriers result from collective-bargaining agreements that allow building trades unions to refuse to handle or install certain products. This results in a limitation on the use of cost-saving products, lower availability of housing, and higher prices. The building code impediments, ostensibly established to protect health and safety, too often serve only to perpetuate out-of-date and far more costly products.

Numerous witnesses at the hearing presented case histories as to how restrictive codes and work practices barred the use of the new technology. I will not repeat those examples but commend the hearing record to you. However, I would like to relate one very recent example as an indication that the problem continues to persist:

In a midwestern city the specifications for a large apartment complex included 400 floor-to-ceiling factory "piped" fan coil heating and cooling units designated by manufacturer and model number. These units were produced in a plant organized by the Sheet Metal Workers International Association and bore the union label.

The mechanical contractor on the job was informed by his employees, members of the United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada, that they would not install the designated manufacturer's units unless the piping was disassembled and reassembled on the jobsite. The United Association offered the subcontractor the alternative of purchasing prepiped units of a competitor manufacturer whose plant was organized by another local of the United Association. The architect insisted that the competitor's product would not meet the specifications and the designated manufacturer's units were delivered to the jobsite. In the absence of the subcontractor, members of the United Association disassembled and reassembled the piping on several units before being stopped by the construction superintendent. Further installation ceased until the matter could be settled after protracted negotiations. Nevertheless, the manufacturer's warranty was voided on those units disassembled and reassembled on the jobsite.

My bill contains the mechanics to prevent this type of action in Federal housing programs without involving the Federal bureaucracy.

It recognizes the need to protect health and safety and to adapt to local differences while still providing the needed boost to productivity in the construction industry.

The bill itself is straightforward. Its important provisions are:

First, through a civil court action in a Federal or State court, any person may prevent the enforcement of any local code, law, ordinance or work rule that restricts his use of new techniques or materials in a federally assisted housing program unless it is necessary to enhance health or safety. No action by a government agency is required.

Second, the remedy does not apply if the code or work practice is required to protect health or safety of working or living conditions. The person who raises this defense must show by a preponderance of the evidence, first, that the restraint is necessary to assure safe and healthful working or living conditions, and second, that the new product fails to provide this assurance.

Third, the court may order equitable or preventive relief and damages although damages may not be assessed against a local government body.

Fourth, the safety and health issue and all other questions under the bill will be decided by State or Federal courts in the locality.

I want to point out that my bill does not provide the means for establishing a national building code. As a result of this subcommittee's hearings on S. 3373, I found objections to the bill centered around a provision using standards established by a HUD-approved standard setting or testing agency to create a presumption that a new product or technique meets safety and health requirements. I amended the bill to eliminate any involvement with such agencies, and took a different approach by placing the burden of proof on the person invoking the health and safety exception. This new approach is described in the foregoing outline. It is a significant improvement since it avoids the recurring questions of national standards, qualified testing, and standard-setting agencies and HUD involvement.

I believe my bill provides a simple solution that can provide lower cost housing to all our citizens. It allows the man who thinks he has built a better "mousetrap" the opportunity to test his idea in the marketplace for the benefit of the consumer. I cannot see why anyone should be afraid to have a work rule, product, or local building code tested in this manner.

Mr. Chairman, I ask favorable subcommittee action on S. 1188 at the earliest possible date.

Senator STEVENSON.. Thank you, Senator Brock. The committee will recess until 10 a.m. Monday.

[Whereupon, at 2:30 p.m., the hearing was adjourned, to reconvene at 10 a.m. on Monday, July 30, 1973.]

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